Regional REIT Limited

Report and Accounts 2015

Contents

Cover Photo: Tay House – Glasgow

Overview

Who We Are

Regional REIT Limited ("Regional REIT" or "the Group") including its subsidiaries[1], is a United Kingdom based real estate investment trust ("REIT"). The Company was admitted to the premium segment of the Official List of the UK's Financial Conduct Authority ("FCA") and to trading on the main market of the London Stock Exchange ("LSE") on 6 November 2015, as LSE:RGL. Regional REIT is managed by London & Scottish Investments, the Asset Manager, and Toscafund Asset Management, the Investment Manager, and was formed from the combination of the existing property funds previously created by the Managers.

Regional REIT's commercial property portfolio is wholly in the UK and comprises, predominantly quality offices and industrial units located in the regional centres of the UK outside of the M25 motorway. The portfolio is highly diversified, with over 120 properties, in excess of 710 units and over 530 tenants as at 31 December 2015[2].

Regional REIT pursues its investment objectives by investing in, actively managing and disposing of regional property assets. The Group offers investors a differentiated play on the recovery prospects of UK regional property. Regional REIT aims to deliver an attractive total return to its Shareholders, targeting 10-15% per annum, with a strong focus on income and good capital growth prospects.

For more information visit the Group's website at **www.regionalreit.com**

[1] Regional REIT Limited is the parent Company of a number of subsidiaries which together comprise a group within the definition of The Companies (Guernsey) Law, 2008, as amended, and International Financial Reporting Standard ("IFRS") 10, 'Consolidated Financial Statements', as issued by the International Accounting Standards Board ("IASB") and as adopted by the European Union ("EU"). Unless otherwise stated, the text of this Annual Report does not distinguish between the activities of the parent Company and those of its subsidiaries. The Company was incorporated in Guernsey on 22 June 2015. This Report and Accounts describes the activities of the Group from the incorporation of Regional REIT Limited on 22 June 2015 to 31 December 2015. However, the listed company did not carry on business in its own right until the completion of a restructuring which occurred contemporaneously with the Admission of its Shares to trading on the London Stock Exchange on 6 November 2015. Therefore, the Report and Accounts describe a period of activity of only 56 days.

[2] Including acquisitions in the first quarter of 2016, the portfolio amounts to c.130 properties, around 970 units and approximately 700 tenants as at 31 March 2016.

Operational Highlights (since Listing)

Strong regional property market driving our opportunity

Admission to listing and the placing of 80m existing Shares	6 November 2015
Property acquisitions	amounting to £120.5m*
Profitable property disposals	proceeds of £27.4m with a profit of £5.1m*
Strong occupancy demand	83.9% as at 31 December 2015 (80.9%, 31 March 2016)
Share price outperformance	+3.8% vs -11.7% FTSE EPRA/NAREIT UK Index (from Listing to 31 March 2016)
Entry to the FTSE All Share Index	on 21 March 2016

* Includes activity completed since the 6 November 2015 listing up to 31 March 2016.

Financial Highlights (from Listing to period ended 31 December 2015)

Conservative financial position underpins growth prospects

Net Asset Value since Admission (Admission: 100p)	+7.7%
EPRA Net Asset Value total return since Admission (Admission: 100p)	+7.8%
Gross asset value of investment properties as at 31 December 2015	£403.7m[1]
Operating profit before gains and losses on property assets & other investments	£3.3m
Profit for the period (attributable to equity shareholders)	£21.1m
Dividend (pence) per share since Admission	1p (Property Income Distribution of 0.6572 pps)
Net Loan to value as at 31 December 2015	25.4%

[1] As at 31 March 2016 Regional REIT's gross asset value was approximately c. £500 million.

Group Milestones and History

2016
(to 31 March)

End March	c.130 properties, around 970 units and approximately 700 tenants. Gross property assets c. £500m
21 March	Entry to the FTSE All Share Index
February	Announced the acquisition of £80m regional office and industrial unit property portfolio at an 8.2% net initial yield (completed March)

2015

End December	Over 120 properties, in excess of 710 units and over 530 tenants
31 December	Regional REIT market capitalisation of £287.2m
31 December	Gross property assets of Regional REIT valued at £403.7m
December	Announced the acquisition of £37.5m regional office and industrial unit property portfolio at an 8.5% net initial yield (completed March 2016)
6 November	Regional REIT, combining the existing Toscafund property funds, admitted to the Official List and to trading on the LSE along with the Placing of 80m existing Shares. External management provided by London & Scottish Investments ("LSI"), the Asset Manager, and Toscafund Asset Management ("Toscafund"), the Investment Manager
30 June	Property assets valued at £386.1m
22 June	Company incorporated in Guernsey

2014

	Tosca Commercial Property Fund II ("Fund II") acquired £39.4m of property assets
August	Fund II acquired £128.8m property portfolio
August	Tosca Commercial Property Fund II raised £106m. Fund managed by LSI and Toscafund
July 2013 to July 2014	Tosca Commercial Property Fund I ("Fund I") acquired £90.1m property portfolio

2013

November	Fund I purchased £88m property debt portfolio
November	Fund I closed, having raised £155m
May	Launch of Tosca Commercial Property Fund I. Fund managed by LSI and Toscafund

Newstead Court – Nottingham

Chairman's Statement

"We aim to provide our Shareholders with an attractive return on a sustained and consistent basis from investing in, predominantly, office and industrial property in the main regional centres of the UK. In a business environment which increasingly bears out our belief in this opportunity, we are delivering on the strategy and commitments we made at the time of our recent listing. For the year ahead our outlook is focused on the continued strong growth of the business." ***Kevin McGrath, Chairman***

It gives me great pleasure to report the Group's first results since its Admission to the London Stock Exchange (LSE) on 6 November 2015. Regional REIT's Shares have performed relatively strongly, despite turbulence in the wider stockmarket, its proposition underpinned by the strength and experience of its Managers and its central thesis; the investment opportunity for commercial property in the regional centres of the United Kingdom outside of the M25 motorway. Into 2016 we have delivered on our strategy and the commitments we made at the time of the listing, of significant acquisitions, asset management initiatives including disposals and reducing the cost of our debt financing.

Admission and Listing

The decision to combine the underlying Toscafund property funds and create the Company, convert to REIT status and to seek a stockmarket listing reflects a number of factors, as well as the widespread support of the property funds' investors. The Managers' view was that there was a far greater and a longer-term opportunity to invest in regional property and that a listing would offer liquidity, access to a wider pool of investors and additional funding flexibility. In addition, opting for REIT status provides a more tax efficient corporate structure.

In early-November 2015 Regional REIT's Initial Public Offering (IPO) of 274.2m Shares at 100p per share provided it with Admission to the premium segment of the Official List of the Financial Conduct Authority and to trading on the main market of the LSE. The offering included the Placing of 80m Shares, sold by existing Shareholders, but with no new monies raised, resulting in a free float (as defined by the FTSE) of approximately 76% with the remainder being held by the Managers. The Managers' shareholdings are subject to lock-in periods of between 6 months and 1 year.

The initial highly-diversified portfolio was seeded with £386.1m of properties (128 properties; 713 units), with a net initial yield of 8.25%, and an extensive (517) tenant base.

Business Environment

The Group believes that the UK regional commercial property market is in the midst of an upturn. Early in 2016, the evidence is that, although growth in the property market as a whole may have paused, the market's weakness is in London and funds have continued to flow towards the UK's regions with rising interest from institutional and international investors.

Management concur with the many property market forecasts that expect regional commercial property to achieve better than high single-digit total returns growth in 2016. Although competition for property assets is increasing, the Group's established presence, strong reputation and expertise will ensure that it maintains a strong market position.

Strategy

The overriding objective of the Board is to deliver an attractive total return to Shareholders. The Group's aim is to invest in high-quality secondary commercial properties in the main regional centres of the UK with an emphasis on offices – 59% (by value) of the portfolio at 31 December 2015 – and industrial units (25%), and on strong income and value-add characteristics. The focus on the Group's core business areas of office and industrial properties continued, along with sales of retail properties and non-core assets and including a reduction in the value and number of assets in Scotland. This sale process is highly structured and assets will only be sold where an adequate price can be secured and the asset's business project having achieved the planned result, so maximising returns for our Shareholders. A most recent example of this is the sale of Blythswood House, Glasgow, announced in early-April 2016.

The Group believes that this is "the right time for the regions", as they gather an increasing share of investment flows, with secondary commercial property set to outperform London and prime regional property as a strong UK economy underpins occupational demand in regional towns and cities with very limited supply. The Asset Manager's view is that valuation differentials between the regions and London have only recently started to narrow and remain well above the long-term average.

To support the organic growth of the business and enhance the asset base, the Asset Manager is actively involved in a granular approach to the property portfolio and maintains a close engagement with tenants and prospective clients. All of this is underpinned by the proven experience and competency of the Asset Manager's team. In addition, the Group will pursue an opportunistic approach to acquisitions – and to holding and selling assets – where it believes assets are mispriced and/or where there are good capital and rental income growth prospects. Although the market is tightening the Asset Manager still sees a number of good deal opportunities.

Into 2016 the Group has executed on its strategy, acquiring a number of strong growth opportunities in the regional commercial property market that we had already identified at the time of listing, amounting to some £120.5m. At the very end of 2015 we announced the £37.5m acquisition of 4 office buildings and an industrial business park. In February we announced the £80m purchase of a portfolio of 5 offices and 7 industrial sites. Including acquisitions in the first quarter of 2016, the portfolio now amounts to over c.130 properties, around 970 units and approximately 700 tenants as at 31 March 2016.

Portfolio Valuation and Net Asset Value

As at 31 December 2015 the value of the Group's property portfolio was £403.7m, compared to a valuation at 30 June 2015 of £386.1m. This increase included property disposals of £8.8m for a profit of £2.4m, demonstrating management's ability to secure good gains on the investment. Into the second-half of 2015 the management team was focused on the listing and new investment activity was reduced, although deal opportunities continued to be identified. As mentioned previously, we have announced several significant portfolio acquisitions early in 2016.

On Admission the Group had an EPRA net asset value (as at 30 June 2015) of £274.2m and 100p per share. By 31 December 2015 the EPRA net asset value had grown to £295.7m, an increase of 7.8%, after charging £5.3m of listing expenses.

Financial Position

At 31 December 2015 the Group had a number of drawn loan facilities amounting to £128.6m, at an average interest cost of 4.5% and with a weighted average maturity of just over 3 years. At the year end the net loan-to-value ("LTV") ratio was 25.4%. The Group has a good relationship with its main banks, which supports asset acquisition and management activities, and aims to manage its average loan maturity broadly in line with the average lease term on the portfolio. The Group currently maintains a 90% minimum hedging strategy on its loan book. Accounting for activity since the year end the net LTV ratio as at 31 March 2016 was approximately 40% and the cost of debt had declined to around 3.7%. The Group has a conservative approach to its balance sheet, targeting a 35% net LTV ratio, with a limit of 50%.

Share Price, Dividends and Target Returns

At Admission the Group's Ordinary Shares were listed at 100p and as at 31 December 2015 the price had risen to 104.75p per Share; over the same period the FTSE EPRA/NAREIT UK Index fell 4.3%. In the first-quarter of 2016 (to 31 March) the share price declined 1.0% versus the FTSE EPRA/NAREIT UK Index falling 7.8%.

At Admission it was the Group's intention to target a dividend yield of 7-8% per annum, on the IPO price of 100p per share covered by recurring earnings, and to pay dividends on a bi-annual basis. The Board reconsidered the frequency of dividend payments in the light of market practice in the sector, the Board's perception of Shareholders' preferences and following discussions with its advisors. In February 2016, we announced we would change to paying dividends quarterly. More recently we declared our first dividend of 1 pence per share, for the period between Admission and 31 December 2015. Going forward our dividend policy will reflect the high income potential of the business. The Group has a total returns target – dividends and capital appreciation – of 10-15% per annum.

Board and Management Team

The Board are working together very effectively and have established a good relationship with the Managers. We are committed to the success of the Group and to ensuring that the best standards of corporate governance are in place. The people at our Asset Manager, in offices around the UK, and at our Investment Manager successfully delivered us as a listed company and will remain key to our success in managing and growing our asset base. The competencies and experience the Managers offer are critical assets of the business. In addition, thanks should be extended to all of our advisors who worked hard to deliver the Group to the Market.

The Board is in the process of considering what would be an appropriate set of key performance indicators ("KPIs") for the business to adopt and will update Shareholders in due course.

Outlook

The UK economy is still expected to continue to perform well, although uncertainties have increased and growth forecasts have been reduced, with the Office for Budget Responsibility (March 2016) projecting GDP growth of 2.0% for 2016 and 2.2% for 2017, from the 2.3% estimated for 2015. The continuing looseness of monetary policy also helps with the prospect of 'lower-for-longer' interest rates as do reduced energy prices. It is also apparent that the service sector, and office employment, have continued to grow. Government policy towards the regions also remains supportive. There are global and Eurozone macroeconomic uncertainties but, whilst growth continues and confidence remains high in the UK, their impact is likely to be limited in the near term.

Prospects for the UK regional commercial property market are strong and there is a continuing investment inflow in a search for yield; regional office investment in particular is rising well above its average of the last 5-years. Occupancy demand, office and industrial, is also good and with a constrained supply. In contrast, London commercial property saw a marked downturn in the second-half of 2015, being the most beset by the retrenchment of international investment and heightened economic and geo-political uncertainties as well as the already low level of yields.

We remain positive on the prospects for the Group in 2016, with sustained growth in rental income and tight control of costs, accompanied by some further growth in assets and an active management of the portfolio mix. We see a strong underpinning for longer-term NAV growth and returns to Shareholders.

Kevin McGrath
Chairman
18 April 2016

Investment Strategy and Business Model

Investment Strategy

The Group will invest in, actively manage and dispose of offices and industrial properties – or debt portfolios secured on such properties – located predominantly in the regional centres of the UK outside the M25 motorway.

The Group aims to acquire a portfolio of interests that together offer Shareholders diversification of investment risk, by investing in a range of geographical areas and sectors across a number of assets and tenants, and through letting properties, where possible, to low-risk tenants.

The Group will use gearing, borrowings and other sources of leverage, to implement its investment strategy and enhance equity returns.

Investment Objectives

The Board is targeting total returns to Shareholders of 10-15% per annum, including a dividend (based on the Listing price of 100p) of 7-8% per annum covered by recurring earnings.

Investment Policy

The Group will only invest in office and industrial properties that are situated in the UK and outside the M25 motorway.

The Group may also invest in property portfolios in which up to 50% of the properties (by market value) are situated inside the M25 motorway.

In the ordinary course of business no single property will exceed 10% of the Group's Gross Asset Value at the time of the investment; exceptionally the Board may consider taking this up to 20%.

The minimum value for a single property investment is £5m, except where an asset is within a portfolio of properties for which there shall be no such minimum.

No more than 20% of the Gross Asset Value shall be exposed to any one tenant or group undertaking of that tenant.

Speculative development (that is, properties under construction, but excluding refurbishment, which have not been pre-let) is prohibited. Any other development is restricted to an aggregate maximum of 15% of Gross Asset Value at investment or commencement.

Borrowings

The Group targets net borrowings to Gross Asset Value of 35%, with a maximum limit of 50%.

Business Model

The Right Time for the Regions	The Group's view of its market is that this is "the right time for the regions". This is underpinned by: growing capital inflows into the regions; the fact that the UK domestic economy is set to remain strong, increasing tenant demand is outweighing the available supply and development of offices and industrial sites; and secondary property being set to outperform prime. At the same time the yield differential between London and the regions remains well above its historic average and market forecasts support both yield compression and asset growth continuing in the regions, in part arising from the distressed state of regional property in the aftermath of the financial crisis. In addition, as an active manager close to its tenants, with the opportunity to reduce funding costs and the scope for some increase in leverage, the Group sees significant opportunities to improve total returns.
Opportunistic Approach to the Property Market	The Group intends to be opportunistic in its approach to the property market, exploiting what its Managers believe are pricing inefficiencies and mismatches available between regional secondary and primary yields. From such opportunities the Group will acquire, hold and sell real estate that it believes to be mispriced and/or have good income and capital growth prospects. In addition, the Group will recycle capital from its legacy portfolio to focus on its core markets.
Investing in Income Producing Assets	The Group maintains a strict set of investment criteria to invest predominantly in income producing assets, capable of delivering an attractive total return to Shareholders with a strong focus on income. The underlying investment decision will be based on an analysis of, inter alia, prospects for future income growth, sector and geographic prospects, lease length, initial and equivalent yields and the potential for active management of the property.
Active Management of the Portfolio	The Group prides itself on maintaining a close relationship with its tenants and prospective tenants and in the extensive and granular management of its properties, a very hands-on approach. The Group will seek to enhance the capital and income growth values of its properties through the services of the Asset Manager, who will do so by way of, inter alia, lease restructuring, improvement of the tenant mix, letting vacant space, minimising void costs, making physical improvements by way of refurbishment, increasing the size of properties and effecting changes of use.
Diversified Portfolio	Underlying the Group's approach is a diverse portfolio, geographically well spread across the regions of the UK with over 120 properties, in excess of 710 units and over 530 tenants as at 31 December 2015*.
Highly Experienced Asset Manager	The Asset Manager, London & Scottish Investments ("LSI") is a long established property investment management company. The senior management team collectively have over 150 years of property experience with in-depth construction and development knowledge. Management has a proven track record of creating value through intensive property management; the management team consistently grew property rental income on a like-for-like basis through the 2008-12 recession. LSI is based in Glasgow and has a number of offices around the UK, with the majority of the 36 staff employed as at 31 December 2015 working on Regional REIT matters.

* Including acquisitions in the first quarter of 2016, the portfolio amounts to c.130 properties, around 970 units and approximately 700 tenants as at 31 March 2016.

Asset and Investment Managers' Report

"Our strategy of active and close management of the property portfolio, including an opportunistic approach to acquisitions and disposals, is already delivering strong results which underpin our outlook. We continue to be positive on the opportunity for commercial property in the regions and for the future development of our business where we are increasingly focusing on a core of offices and light industrial sites and a broader geographical mix."

Stephen Inglis, Group Property Director and Chief Investment Officer of London & Scottish Investments Limited

Market Overview

The Asset Managers' view is that the UK regional commercial property market continues to perform strongly. There is continuing interest and heightened activity from an increasing number of investors, both from the UK and overseas, seeking 'value' and yield. The shift in investors' focus away from London started with prime regional assets but is now firmly focused on good secondary commercial property, and the Asset Manager expects this shift to continue.

This weight of capital is reflected in a yield shift and as an increasing amount of capital invests in the regions inevitably yields will continue their decline. However, with most market sectors now witnessing real rental growth – which looks set to continue with strong occupancy demand and limited supply and very little new build – we anticipate further rent increases. We believe that this will be particularly evident in the secondary commercial property market, with the differential between prime and secondary yields set to narrow to be more in line with the long-term average.

It is noteworthy that much of the capital chasing regional property assets is for "stabilised-income" rather than the intensive asset management opportunities sought by the Group. Investors are proceeding mainly on a macro basis; that these markets offer good value, that yields will continue to close to long-term averages and rental growth will further bolster performance. All of this is likely, but the strategy of Regional REIT is at a more micro level; it acquires property assets, from distressed vendors or less asset management intensive organisations, which require significant time and resources to manage, and produces a stable income stream. Investors benefit from this but it is also consistent with the goals of the macro player, as is being recognised by ongoing capital inflows.

Yields continue to fall for the 'stabilised-income' property assets, driven by the weight of money from investors now seeking opportunities in the UK's regions. However, the intensive asset management opportunities sought by the Group are not witnessing the same levels of interest. This gives the Group a significant arbitrage opportunity as we continue to identify good opportunities for our Shareholders.

Investment Activity in UK Commercial Property

In 2015, investment in UK commercial property reached a record level of £61.5bn. There is evidence of a continued rise in investment in the UK's regional markets, as the Asset Manager predicted in 2012, with investors beginning to recognise the opportunity for better returns outside of London. Regional commercial property markets are now in the driving seat, reaching a record investment volume of £39.5bn in 2015 (Figure 1). This is set to continue, which will drive further outperformance in the regional markets. CoStar estimates that Central London received 31% of all UK investment in 2015, down from a high of 46% in 2012, its lowest share since the financial crisis.

UK commercial property investment volumes, £bn

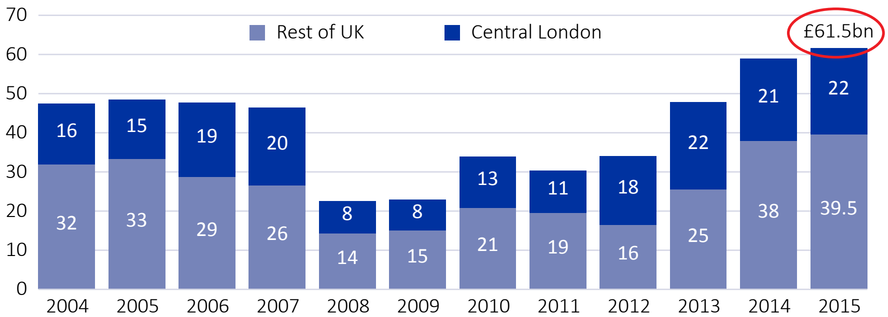


Figure 1: Cushman & Wakefield Research (Dec 2015)

Global capital targeting the UK continued to rise, with more investors now investing in UK regions. According to CoStar, 2015 was a record year for foreign investment with £27.8bn flowing into UK commercial real estate, a 6% increase on 2014.

For the Asset Manager, a key metric is that yield spreads between prime and secondary properties have fallen in the last 12-18 months from the historic highs of 2013 and 2014. The yield spread remains well above its long-term average levels, which indicates that there remain significant opportunities for high quality secondary properties to outperform in the short to medium term (Figures 2 and 3).

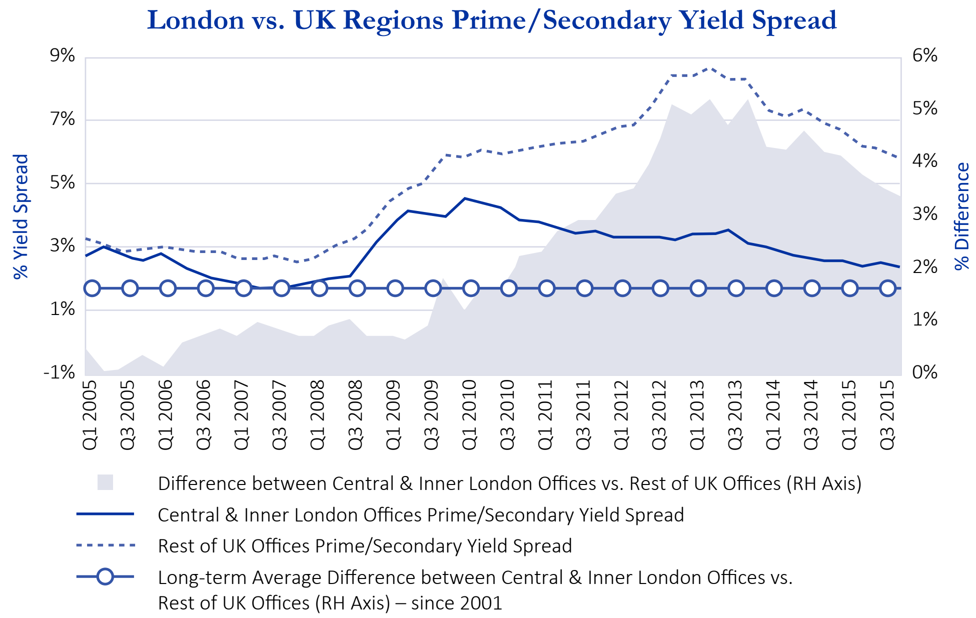


Figure 2: Strong potential for high quality secondary properties to achieve stronger returns in the short to medium term than prime London properties
Cushman & Wakefield Research, IPD/MSCI (Dec 2015)

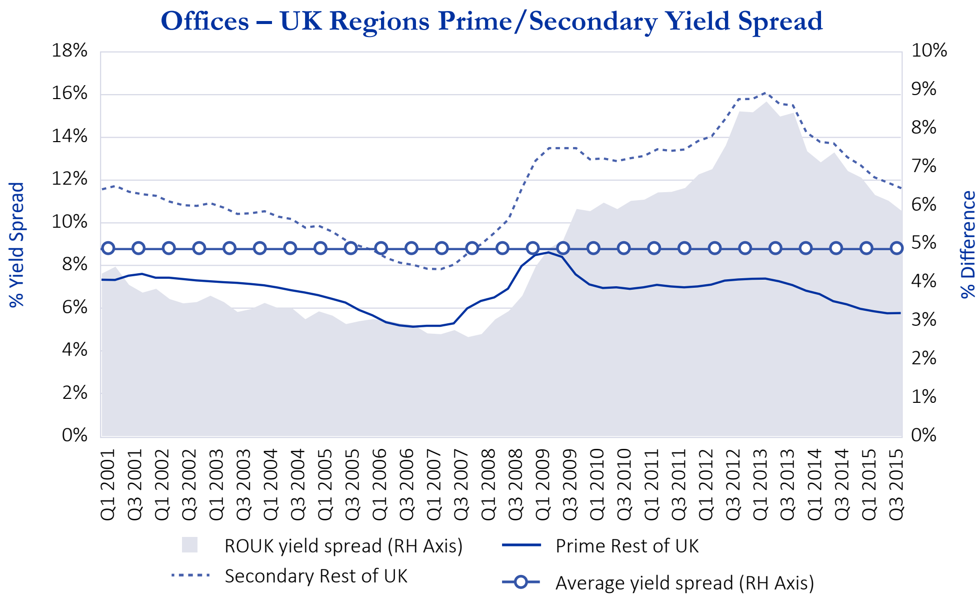


Figure 3: Yield spreads beginning to move back to their long-term average
Cushman & Wakefield Research, IPD/MSCI (Dec 2015)

Offices – Occupational Demand

A record UK employment rate in 2015, and an increase in office employment, has had a direct impact on take-up in the office market. Take-up of office space reached 5.6 million sq. ft. in 2015 (Figure 4) within the main regional markets (40% of this was in Manchester and Birmingham as a result of inward movers drawn to their city centres), the second highest volume on record after 2014.

Professional services firms continued to dominate the take-up of office space in 2015 within the core regional markets, accounting for 29%. Demand for office space remains robust: there is 9.7m sq. ft. of active demand within the core 8 UK regional markets, dominated by the professional and public administration sectors.

Office supply remained constrained in the main regional markets, with a shortfall in developments. There was a decline in availability and vacancy rates across all grades (Figures 5 and 6) as high levels of take-up have continued.

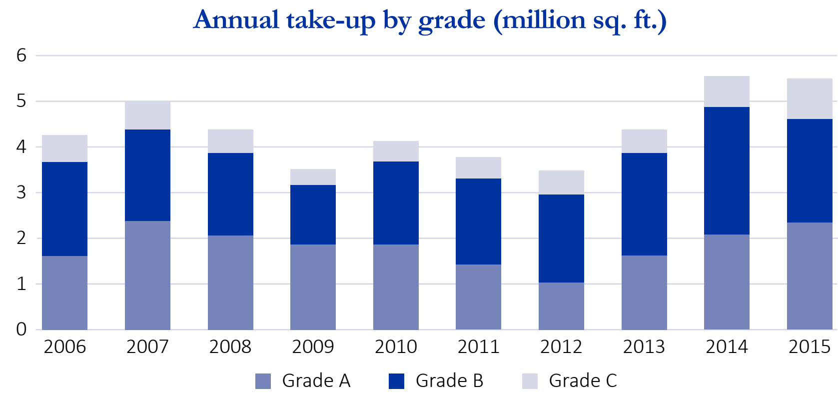


Figure 4: Cushman & Wakefield Research (Feb 2016)

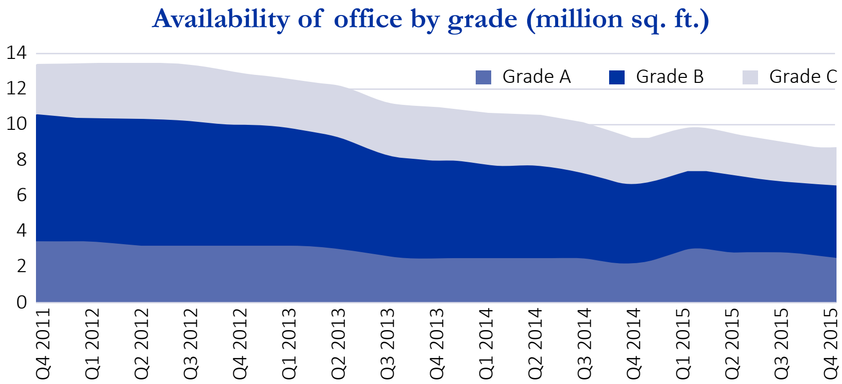


Figure 5: Cushman & Wakefield Research (Feb 2016)

Availability and vacancy rates of offices in regional markets (all grades)

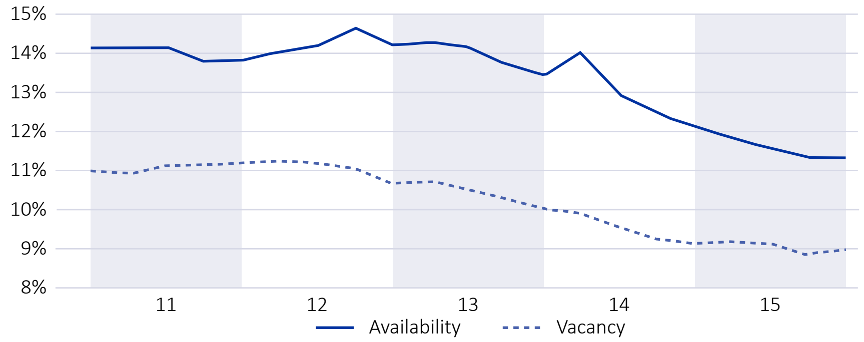


Figure 6: CoStar (Feb 2016)

Rental Growth Accelerating in the UK Regional Office Market

Against a backdrop of rising demand and limited supply and availability, all regional office markets are showing nascent signs of rental growth. According to JLL, prime rental growth across the core 8 regional office markets increased by an average of 5.3% in 2015.

JLL's research expects headline rental growth across UK cities to average 2.8% per annum for the period 2016 to 2020. With the very low vacancy rates within prime properties, the Asset Manager anticipates the demand for high quality secondary properties to increase, which will put upward pressure on rents and downward pressure on rent incentives (Figure 7).

Industrial – Occupational Demand

Take up in 2015 totalled 29.7 million sq. ft., a 15% decrease from 2014. The reduced take-up was seen across most UK regions as occupiers became more cautious due to global economic concerns, weaker export numbers and the upcoming EU referendum.

The growth of online spending means that e-tailing is now the most influential sector in the industrial market, accounting for 38% of overall take up in 2015.

With development focussed on Grade A space and pre-let situations for large distribution units close to the main North-South trunk roads, namely the M1, M6 and around the M25, there is very little additional supply to the multi-sized, multi-let industrial estates. The Asset Manager predicts that this will continue to be the case, which will result in a demand-supply imbalance in this market driving rental growth.

According to Cushman & Wakefield, the stronger UK regional markets experienced the greatest yield compression in 2015.

Industrial Rental Growth

Industrial rents are now in a sustained period of growth due to the demand-supply imbalance in the market, with the rest of UK industrial showing a c. 4% increase in 2015 according to IPD. The Investment Property Forum UK Consensus Forecasts, February 2016, show average 3.5% and 2.9% rental growth for 2016 and 2017 respectively. The Asset Manager predicts that rental growth in Grade B space in a number of good locations will outperform these averages.

Rent levels and vacancy rate in secondary office properties in regional markets

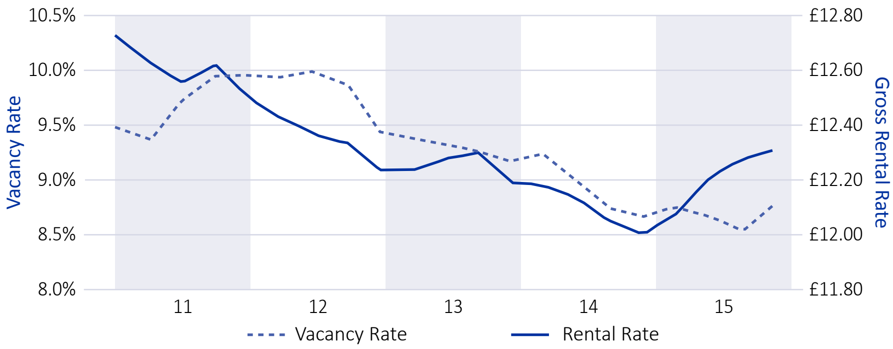


Figure 7: CoStar (3 Star office properties in Birmingham, Bristol, Coventry, Edinburgh, Glasgow, Leeds, Leicester, Manchester, Newcastle upon Tyne, and Nottingham) (Feb 2016)

Bank Lending to UK Property

The recovery in the lending market and increased lending appetite is also supporting property investment. From research published by De Montfort University in December 2015, £24.7bn of new lending was recorded in the first half of 2015, a 26% increase year-on-year. In the first half of 2015, half of all new loans were issued by just six banks.

According to Cushman & Wakefield, in a survey of lenders in December 2015, 91% of lenders expect lending activity to increase or remain static compared with 2015 levels, with the balance evenly split, therefore loan books are set to expand further. The Asset Manager believes that increased market diversification and competition within the lending market bodes well for the property market, and has helped to drive down the cost of borrowing.

The aforementioned factors can be seen in the investment market where yields have continued to fall in the year to December 2015 from their historic highs in 2013. This has been supported by a more favourable economic environment for property investment, in particular persistent low interest rates.

Economic Overview

UK GDP grew 2.3% in 2015, down from 2.9% in 2014. The slowdown was largely due to weaker net trade and a moderation in construction and public spending. Despite worries about the slowdown in China, the fall in oil prices due to oversupply and the uncertainty created by the forthcoming EU referendum, the consensus published by HM Treasury in March 2016 shows GDP growing 2.0% in 2016 and 2.1% in 2017.

Inflation ("CPI") forecasts remain below the Bank of England's 2% target, with the fall in commodity prices, the continued slack in the economy and a moderate increase in core inflation. Consensus estimates now indicate that it will probably be 2017 at the earliest before we see an increase in interest rates.

Employment levels have continued to rise. The unemployment rate (December 2015) was 5.1% (5.7% in December 2014) and the employment rate was 74.1% which, according to the Office for National Statistics ("ONS") is the highest since comparable records began in 1971.

The service sector, which accounts for more than three-quarters of the UK economy, continues to expand according to the Markit/ CIPS UK Services Purchasing Managers' Index (February 2016). This expansion, which has increased employment growth, has had a knock-on effect on the level of take-up in the office market and prospects for future rental growth.

In the retail sector, the ONS estimates that sales volumes grew for the 34th consecutive month in February 2016, increasing by 3.8% compared with February 2015.

According to the ONS, business investment also continued to grow in 2015 (Figure 8).

Figure 8: Quarterly Acquisitions and Disposals of Capital Assets Survey – ONS (Dec 2015)

Asset Manager Summary

- Weight of capital continues with record levels of investment in UK regional commercial property assets in 2015
- Focus of capital moving towards the UK regions from London
- Expect to see continued growth in 2016 in regional office and light industrial assets
- Secondary to continue to outperform prime property as yield spread narrows towards long-term average

The Investment Property Forum UK Consensus Forecasts published in February 2016 are in Tables 1 and 2 below.

Sector	Total Return 2016	Total Return 2017
Office	9.2%	5.1%
Industrial	9.3%	6.4%

Table 1: Investment Property Forum UK Consensus Forecasts, Feb 2016

These are market averages and the Asset Manager expects the secondary regional markets to perform in excess of these levels.

Summary average by sector

	Rental value growth (%)				Capital value growth (%)				Total return (%)			
	2016	2017	2018	2016/20	2016	2017	2018	2016/20	2016	2017	2018	2016/20
Office	5.2	3.1	1.8	2.1	4.9	0.8	(0.5)	0.5	9.2	5.1	3.9	4.9
Industrial	3.5	2.9	2.3	2.3	3.9	1.1	1.0	1.2	9.3	6.4	6.3	6.6
Standard Retail	2.5	2.4	2.2	2.1	2.7	0.6	0.8	0.9	7.4	5.2	5.5	5.7
Shopping Centre	1.2	1.8	1.8	1.7	1.6	(0.2)	0.3	0.3	6.7	4.9	5.3	5.4
Retail Warehouse	1.5	1.8	1.8	1.8	1.2	(0.1)	0.2	0.3	6.7	5.4	5.8	5.9
All Property	**3.2**	**2.6**	**2.0**	**2.1**	**3.0**	**0.5**	**0.2**	**0.7**	**7.9**	**5.4**	**5.2**	**5.6**

Table 2: Investment Property Forum UK Consensus Forecasts, Feb 2016

Net Asset Value

In the period since listing, 6 November 2015 to 31 December 2015, the EPRA ("European Public Real Estate Association") Net Asset Value ("NAV") of the Group rose to £295.7m, from £274.2m, an increase of 7.8 pence per share ("pps").

The Net Asset Value increased to 107.7pps, from 100.0pps, over the same period. The Launch costs of the listing amounted to 1.9pps.

Income Statement

There was an operating profit before gains and losses on property assets and other investments for the period 6 November 2015 to 31 December 2015 of £3.3m. Certain costs incurred in the 56 day operating period would normally be charged for a full accounting period, including auditors fees and legal and professional fees. Profit after the finance items and before taxation was £21.1m. This included an exceptional item for the launch costs, of £5.3m, which were incurred as a result of the Group's Admission to the London Stock Exchange ("LSE").

Dividend

The Group announced a dividend for the period 6 November 2015 to 31 December 2015 of 1pps on 7 March 2016, which was paid on 15 April 2016.

The dividend consisted of 0.6572pps designated as a property income distribution ("PID") and 0.3428pps as a non-PID.

Net Asset Value	Pence per share
EPRA NAV as at Admission 6 November 2015	100.0
Net rental income	1.7
Administration and other expenses	(0.5)
Gain on the disposal of investment properties	0.0
Change in fair value of investment properties	8.7
Operating profit before exceptional items	**109.9**
Exceptional Items (Launch costs)	(1.9)
Operating profit after exceptional items	**108.0**
Finance expenses	(0.3)
Operating profit after finance item	**107.7**
Taxation	0.0
NAV per share as at 31 December 2015	**107.7**
Gain on derivative financial instruments	0.1
EPRA NAV per share as at 31 December 2015	107.8

Debt Financing and Gearing

Borrowings comprise third-party bank debt which is secured over properties owned by the Group and repayable over the next 2 to 4 years, with a weighted average maturity of 3.4 years. The Group's borrowing facilities were with Santander UK, Royal Bank of Scotland and ICG Longbow Ltd, and were largely drawn down at the year end. Total bank borrowing at 31 December 2015 amounted to £128.6m (including unamortised debt issuance costs).

At 31 December 2015 the Group's cash and cash equivalent balances amounted to £24.0m.

The Group's net loan-to-value ratio stands at 25.4%. The Board targets a Group's net loan-to-value ratio of 35% with a maximum of 50%. The table below sets out the borrowings the Group had in place as at 31 December 2015:

Lender	Original Facility	Outstanding Debt*	Maturity Date	LTV	Interest Cost Per annum	Amortisation	Hedging and Swaps: Notional Amounts/Rates**
Santander UK	£35,000,000	£31,605,902	Dec-18	29.2%	2.7% over 3mth LIBOR	Mandatory Prepayment basis	£11m/1.867%
Santander UK	£13,500,000	£9,587,485	Dec-18	17.7%	2.7% over 3mth LIBOR	Mandatory Prepayment basis	£4.65m/2.246%
Royal Bank of Scotland	£15,600,000	£15,600,000	Jun-19	29.7%	2.75% over 3mth LIBOR	None	£14.04m/1.79%
ICG Longbow Ltd	£65,000,000	£65,000,000	Aug-19	48.9%	5% pa for term	None	n/a
Santander UK	£7,000,000	£6,850,000	Feb-18	46.2%	2% over 3mth LIBOR	£50,000 per qtr	£5.48m/1.444%
	£136,100,000	**£128,643,387**					

* Including unamortised debt issue costs and fair valuation adjustment at period end.

** Hedging arrangements: As at 31 December 2015, the swap notional amount was £35.2m. Under the swap agreements, the notional amount reduces on a quarterly basis.

The net gearing ratio, net debt to equity, of the Group was 34.8% as at 31 December 2015.

Hedging

The Group applies a hedging strategy that is aligned to the property management strategy. Borrowings are currently 90% hedged against interest rate risk: of all borrowings 51% are at a fixed rate; 27% have interest rate swaps to fix the variable LIBOR portion of the interest rate applicable; and 12% have interest rate caps which place an upper limit on the variable LIBOR portion of the interest rate applicable.

The Weighted Average Effective Interest Rate on the borrowings at 31 December 2015, including the hedging cost, was 4.5%.

Tax

The Group entered the UK REIT regime on 7 November 2015 and all of the Group's UK rental operations became exempt from UK corporation tax from that date. The exemption remains subject to the Group's continuing compliance with the UK REIT rules.

Events After the Reporting Period

In the first quarter of 2016 the Group completed a number of significant acquisitions and a refinancing.

As at 31 March 2016 the Group's property assets amounted to approximately c. £500m. As at 31 March 2016 Group borrowings amounted to c. £226m with a weighted average effective interest rate on the borrowings, including the hedging cost, of 3.7%.

Boar Lane – Leeds

Property Portfolio

As at 31 December 2015, the Group's property portfolio was valued at £403.7 million, with contracted rental income of £35.9m, and a vacancy rate of 16.1%. There were 123 properties in the portfolio:

By segment	52 office (£239.8m)
	29 industrial (£99.6m)
	37 retail (£45.0m)
	1 student accommodation (£17.4m)
	4 other (including residential)

By region	49 Scotland (£144.9m)
	22 Midlands (£66.6m)
	15 South East (£66.1m)
	15 North East (£57.0m)
	12 North West (£37.1m)
	2 Wales (£16.6m)
	8 South West (£15.5m)

If the portfolio was fully occupied at Cushman & Wakefield's view of market rents, the gross rental income would be £40.4 million per annum as at 31 December 2015.

As at 31 December 2015 the net initial yield on the portfolio was 7.6%, the equivalent yield was 8.3% and the reversionary yield was 9.0%.

Regional REIT Property Portfolio by Segment and Region

Segment

	Properties	Valuation £m	% by valuation	Sq. ft. (mil)	Occupancy %	WAULT[1] to first break (yrs)	Gross rental income £m	Net rental income £m	Average rent £psf	ERV[2] £m	Capital rate £psf
Office	52	239.85	59.4%	1.98	84.4%	2.9	22.2	21.5	13.3	24.9	121.14
Industrial	29	99.62	24.7%	3.15	83.9%	5.5	8.9	8.0	3.3	10.2	31.63
Retail	37	45.03	11.2%	0.42	88.4%	5.4	3.8	3.3	10.5	4.3	107.21
Student Accomm	1	17.40	4.3%	0.03	100.0%	24.7	0.9	0.9	28.9	0.9	n/a
Other	4	1.80	0.4%	0.04	7.4%	4.4	0.1	0.1	18.6	0.1	n/a
Total	**123**	**403.7**	**100.0%**	**5.62**	**83.9%**	**4.4**	**35.9**	**33.8**	**7.6**	**40.4**	**71.83**

Region

	Properties	Valuation £m	% by valuation	Sq. ft. (mil)	Occupancy %	WAULT to first break (yrs)	Gross rental income £m	Net rental income £m	Average rent £psf	ERV £m	Capital rate £psf
Scotland	49	144.91	35.9%	2.31	83.7%	5.0	12.8	12.5	6.6	15.1	62.73
Midlands	22	66.59	16.5%	0.90	76.4%	3.2	6.3	6.1	9.1	6.4	73.99
South East	15	66.05	16.4%	0.61	93.5%	2.1	6.5	6.1	11.3	6.9	108.28
North East	15	57.01	14.1%	0.83	83.2%	4.6	4.9	4.8	7.1	5.6	68.69
North West	12	37.13	9.2%	0.63	89.9%	8.3	3.0	2.4	5.3	3.1	58.94
Wales	2	16.55	4.1%	0.19	94.5%	6.6	1.3	1.0	7.7	1.4	87.11
South West	8	15.46	3.8%	0.15	60.2%	2.3	1.1	0.9	12.3	1.9	103.07
Total	**123**	**403.7**	**100.0%**	**5.62**	**83.9%**	**4.4**	**35.9**	**33.8**	**7.6**	**40.4**	**71.83**

[1] WAULT – weighted average unexpired lease term
[2] ERV – estimated rental value

Top 15 Investments (market value) as at 31 December 2015

Property	Sector	Anchor tenants	Market value (£m)	% of portfolio	Lettable area (Sq. ft)	Let by area (%)	Annualised gross rent (£m)	WAULT (years)
Tay House, Glasgow	Office	Barclays Bank Plc, Glasgow University	30.5	7.6%	156,933	69.1%	2.2	9.2
Wardpark Industrial Estate, Cumbernauld	Industrial	Balfour Beatty Utility Solutions Limited, Cummins Limited	19.1	4.7%	709,816	88.1%	2.3	3.9
Blythswood House, Glasgow[1]	Student Accom.	The Glasgow School of Art	17.4	4.3%	32,000	100.0%	0.9	24.7
Hampshire Corporate Park, Chandler's Ford, Eastleigh	Office	Aviva Health UK Limited, Royal Bank of Scotland plc	14.8	3.7%	85,422	100.0%	1.4	3.1
One and Two Newstead Court, Nottingham	Office	E.On UK Plc	14.7	3.6%	146,063	100.0%	1.5	6.2
Columbus House, Coventry	Office	TUI Northern Europe Limited	14.7	3.6%	53,253	100.0%	1.1	8.0
Winsford Industrial Estate, Winsford	Industrial	Jiffy Packaging Limited	13.1	3.2%	246,209	100.0%	0.9	18.8
1-4 Llansamlet Retail Park, Swansea	Retail	Steinhoff UK Group Property Limited, Wren Living Limited, Halfords Limited	12.5	3.1%	71,615	85.7%	1.0	9.8
Churchill Plaza, Basingstoke[2]	Office	Barclays Bank Plc	11.0	2.7%	135,362	100.0%	1.4	1.0
The Point, Glasgow	Mixed use	Howden Joinery Properties Limited, Euro Car Parts Limited	10.5	2.6%	183,861	93.9%	0.8	11.4
Templeton on the Green, Glasgow	Office	The Scottish Ministers, The Scottish Sports Council, Heidi Beers Limited	10.2	2.5%	142,758	87.4%	1.0	10.4
CGU House, Leeds	Office	Aviva Insurance Limited	9.9	2.5%	50,763	100.0%	1.0	1.7
9 Portland Street, Manchester	Office	Mott MacDonald Limited, New College Manchester	9.2	2.3%	54,959	89.8%	0.7	6.7
Chancellor Court, Leeds	Office	St James Place Wealth Management Group plc, The Legal Aid Agency	9.0	2.2%	41,818	100.0%	0.8	3.6
Marston Business Park, Tockwith, Wetherby	Industrial	Stage One Creative Services Limited, AJ Marshall (Specialist Steels) Limited	6.6	1.6%	223,043	76.7%	0.6	15.0
Total			**203.2**	**50.2%**	**2,333,875**		**17.6**	

[1] Sold April 2016
[2] Sold February 2016

Top 15 Tenants (share of rental income) as at 31 December 2015

Tenant	Property	Sector	WAULT (break if applicable) years	Sq. ft	% of Gross rental income
Barclays Bank Plc	Churchill Plaza, Basingstoke[1] & Tay House, Glasgow	Banking	5.8	213,406	8.2%
E.ON UK Plc	One & Two Newstead Court, Annesley	Energy	6.2 (3.1)	146,063	4.3%
TUI Northern Europe Ltd	Columbus House, Coventry	Travel and tourism	8.0	53,253	3.1%
Aviva Health UK Ltd	Hampshire Corporate Park, Chandler's Ford, Eastleigh	Insurance	2.3	64,486	2.9%
Aviva Insurance Ltd	CGU House, Leeds	Insurance	1.7	50,763	2.8%
The Glasgow School of Art	Blythswood House, Glasgow[2]	Education	24.7	32,000	2.6%
Jiffy Packaging Ltd	Road 4 Winsford Industrial Estate, Winsford	Manufacturer of PE/PP foam	18.8	246,209	2.5%
The Secretary of State for Communities	Bennett House, Hanley & Sheldon Court, Solihull	Government	3.1 (1.6)	69,436	2.3%
Lloyds Bank Plc	Victory House, Meeting House Lane, Chatham	Banking	2.4	48,372	1.9%
The Scottish Ministers c/o Scottish Prison	Calton House, Edinburgh	Government	1.8	51,914	1.7%
Office Depot UK Limited	Niceday House, Meridian Park, Andover	Retailer of office supplies	3.1	34,262	1.6%
Severn Trent Water Limited	2800 The Crescent, Solihull	Utilities (water)	0.2	29,935	1.5%
W S Atkins (Services) Ltd	Century Way, Thorpe Park, Leeds	Consultancy (engineering)	2.6	32,647	1.4%
South Lanarkshire Council	Royal Burgh House, 380 King Street, Glasgow	Government	2.4	24,600	1.4%
Level 3 Communications Limited	Minton Place, Swindon & Rosalind House, Basingstoke	Telecommunications	4.5 (1.7)	28,120	1.3%

[1] Sold February 2016
[2] Sold April 2016

Property Portfolio Segment and Region by Valuation and Income

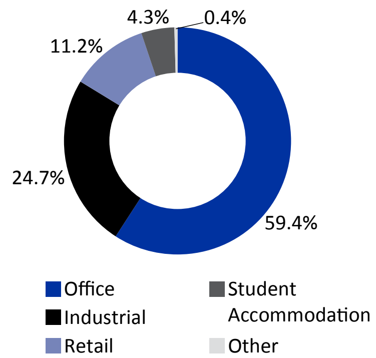
By Valuation

As at 31 December 2015 59.4% of the portfolio by market value was offices and 24.7% was industrial. The balance was made up of retail (11.2%), student accommodation (4.3%) and other. With the acquisitions and disposals in the first quarter of 2016 the proportion of offices and industrial amounted to c. 88% as at 31 March 2016. By UK region, as at 31 December 2015, Scotland represented 35.9% of the portfolio and England 60.0%; the balance of 4.1% was in Wales. In England the largest regions were the Midlands, the South East and the North East. With the acquisitions and disposals in the first quarter of 2016 the proportion in England amounted to c. 67% as at 31 March 2016.

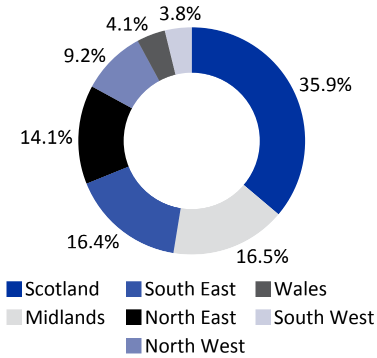
By Income

As at 31 December 2015 61.8% of the portfolio by income was offices and 24.7% was industrial. The balance was made up of retail (10.7%), student accommodation (2.6%) and other. With the acquisitions and disposals in the first quarter of 2016 the proportion of offices and industrial amounted to c. 90% as at 31 March 2016. By UK region, as at 31 December 2015, Scotland represented 35.7% of the portfolio and England 60.6%; the balance of 3.7% was in Wales. In England, the largest regions were the South East, the Midlands and the North East. With the acquisitions and disposals in the first quarter of 2016 the proportion in England amounted to c. 66% as at 31 March 2016.

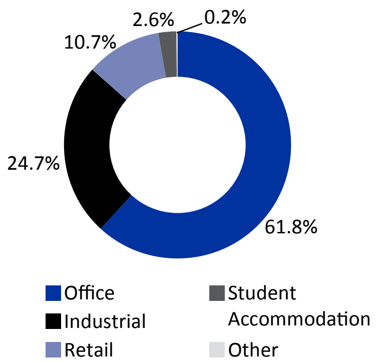
Segment Split by Valuation



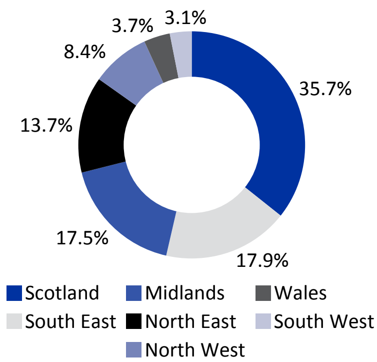
Regional Split by Valuation



Segment Split by Income



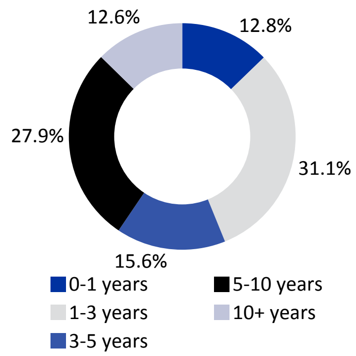
Regional Split by Income



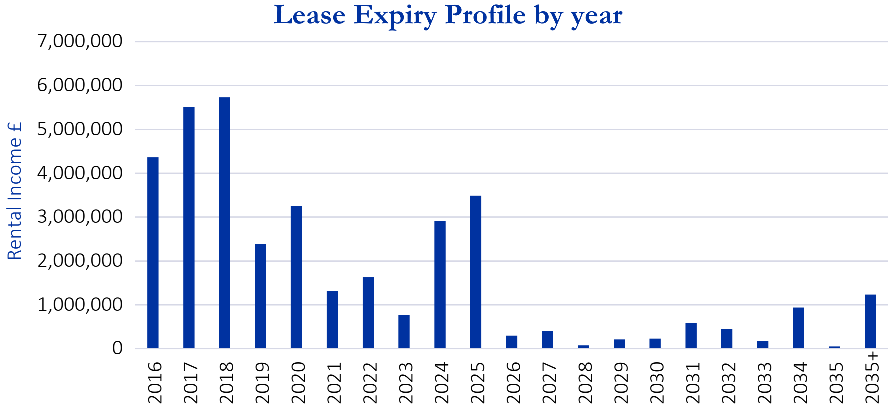
Lease Expiry Profile

The weighted average unexpired lease term ("WAULT") on the portfolio is 6.1 years (5.6 years excluding Blythswood House); WAULT to first break is 4.4 years (3.8 years excluding Blythswood House). As at 31 December 2015, 12.8% of income was leases which will expire within 1 year, 31.1% between 1 and 3 years, 15.6% between 3 and 5 years, and 40.5% after 5 years.

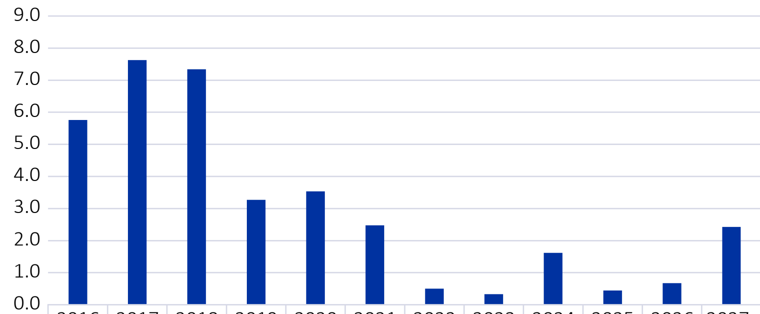
Lease Expiry Profile



Lease Expiry Profile by year

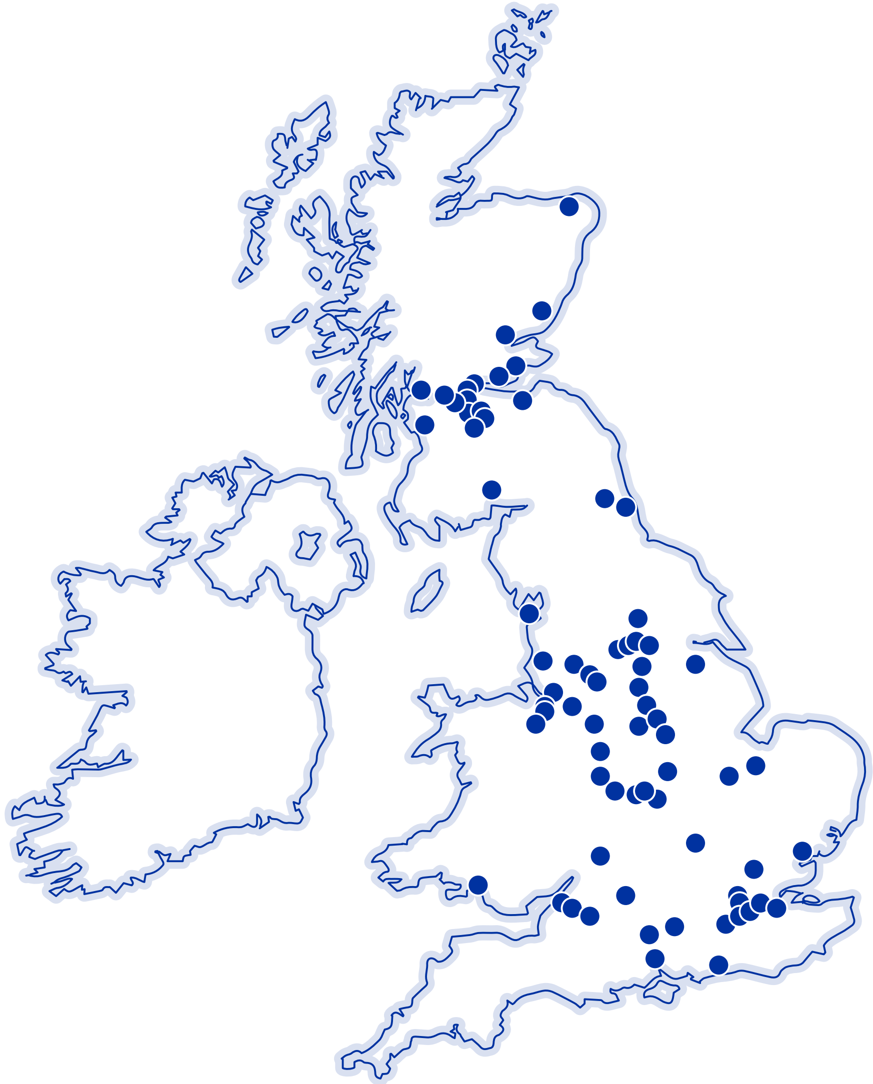


Lease Expiry Date to First Break



	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027+
Headline rent £m	5.76	7.62	7.34	3.27	3.53	2.47	0.50	0.33	1.62	0.45	0.67	2.43

UK Property Locations as at 31 December 2015



Events after the Reporting Period – Acquisitions and Disposals

On 30 December 2015, the Group announced it had exchanged contracts on the Wing portfolio of four multi-let office buildings and a multi-let industrial estate for a purchase price of £37.5m. The portfolio is located in Basingstoke, Leeds, Leicester and Manchester and an industrial business park in Beverley and totals c. 703,000 sq. ft., providing a net income of £3.38 million per annum. This equates to a net initial yield of 8.5%. The deal completed on a phased basis, stage 1 being 22 January 2016 for the freehold assets with stage 2, the leasehold assets of Basingstoke and Beverley, completing on 22 March 2016.

On 6 January 2016, the Group announced it had completed the acquisition of Rosalind House in Basingstoke for an acquisition price of £3m. The office building, 26,448 sq. ft. let until 2020, provides a net annual income of £396,000, equating to a net initial yield of 12.48%. Subsequently the Group agreed a lease surrender for a reverse premium of £888,000 and back-to-back letting following refurbishment to New Voice Media on a new 10 year lease at £394,755 per annum.

On 9 February 2016, the Group announced that it had exchanged contracts to buy the Rainbow Portfolio for £80.0m. The portfolio comprises 12 assets, five offices and seven industrial sites, totalling 1.15m sq. ft., which are geographically spread throughout the UK in major regional urban areas, including Bristol, Manchester, Cardiff, Sheffield and the West Midlands. Income from offices amounts to 55% of the portfolio; 86% of the income is from England. The portfolio produces a net yield of 8.2% at a capital rate of £70 per sq. ft. The deal completed on 9 March 2016.

These acquisitions were funded by a combination of capital resources and additional bank borrowing.

The Group also announced, on 9 February 2016, a number of disposals:

- Churchill Plaza, Basingstoke sold for £12m, the property having been acquired in August 2014 for £7.5m. The sale price represented a 52% increase on the June 2015 value and a 9% increase on the December 2015 valuation.
- Five retail assets sold for a total consideration of £4.8m, marginally ahead of the December 2015 valuation.
- An office building in Kirkcaldy has also been sold for £0.9m, 50% ahead of the June 2015 valuation and in line with the December 2015 valuation. An office building in Glasgow, 21 Blythswood Square, sold just before the December 2015 valuation for £1.5m, in line with valuation.

These disposals are consistent with the Group's policy of selling where real value has been created and to reduce risk, specifically development and retail properties where good value can be achieved.

In a number of other deals, the Group has continued to demonstrate its focus on its existing portfolio and has completed several active asset management projects in recent weeks, generating additional income through new lettings and maintaining and improving income through lease renewals and re-gears.

- Glasgow: At Tay House, the Grade A office building in Glasgow, the Group completed a deal with Barclays Bank plc, the major tenant of the building, occupying 78,044 sq. ft., to provide guaranteed income until October 2021. In addition, refurbishment works have commenced on the first and second floors, amounting to 48,533 sq. ft.
- Leeds: At Chancellor Court, The Calls, the Group has negotiated a five-year extension from September 2016 with the current tenant St James Place Wealth Management Limited. The lease consists of 17,896 sq. ft. of office space over two floors, providing a rent of £268,440 per annum.
- Bristol: The Group completed an agreement to let the ground and second floors of Building A at St James Court, Bristol. The deal will see South West Ambulance Service Trust (NHS) occupying 20,071 sq. ft. for a term of 15 years at £301,065 per annum. The Group is also in advanced negotiations on three quarters of the 17,641 sq. ft. Building B. This accommodation only ceased to be income-producing when vacated by EE on 24 December 2015 and demonstrates the Group's active asset management and strength of the Bristol market.
- Bath: the Group agreed with the BBC the surrender of the lease of St James Court for the sum of £1.1 million, and has completed refurbishment and partial remodelling of the ground and first floors. Agents have been appointed to find new tenants and a rental income of around £20 per sq. ft. is expected for the building. The Group has completed the extension of the letting of the second floor, extending occupation from 2017 to 2022.
- Nottingham: At Sherwood Park the Group agreed a new 10-year lease with E.ON UK plc on 2 Newstead Court, comprising 99,142 sq. ft., at a rent of £946,425 per annum. E.ON has occupied the property since 2004. EON also occupy the adjacent Regional REIT asset at 1 Newstead Court where they have recently completed a c. £1.2m refurbishment of the top floor.

On 6 April 2016, the Group announced the sale of Blythswood House, Glasgow for £17.4m in line with the valuation at 30 June 2015. Also Unit A, Spectrum Business Park, Wrexham was sold for £4.1m, 22% higher than the valuation at 30 June 2015. The Group also confirmed it had a new 10-year agreement with Regus for 30,000 sq. ft. of floor space at Tay House, Glasgow.

Our Top 15 Properties by Segment: Office

Tay House, Glasgow

Market value (£m)	30.50
Sector	Office
Annualised gross rental (£m)	2.23
Lettable area (ft^2)	156,933
Anchor tenants	Barclays Bank Plc, Glasgow University
Let by area (%)	69.1
Weighted average unexpired lease term (years)	9.2

- Undertaking refurbishment of vacant first and second floors (50,000 sq. ft.) in an improving letting market

Hampshire Corporate Park, Eastleigh

Market value (£m)	14.84
Sector	Office
Annualised gross rental (£m)	1.36
Lettable area (ft^2)	85,422
Anchor tenants	Aviva Health UK Limited, Royal Bank of Scotland plc
Let by area (%)	100.0
Weighted average unexpired lease term (years)	3.1

- Potential to increase car parking for Aviva at Chilworth House and re-gear their lease beyond December 2018
- Presently preparing refurbishment proposals for NatWest House

One and Two Newstead Court, Nottingham

Market value (£m)	14.70
Sector	Office
Annualised gross rental (£m)	1.53
Lettable area (ft^2)	146,063
Anchor tenants	E.ON UK plc
Let by area (%)	100.0%
Weighted average unexpired lease term (years)	6.2

- Opportunity to re-gear leases with E.ON at a reduced level given current over-renting
- Renegotiated leases of larger Building 2 with E.ON from 1 May 2015 for 10 years with tenant break at fifth year
- E.ON completed £1.2m refurbishment of first floor of Building 1 – seeking to re-gear lease beyond 2017 following completion of works

Our Top 15 Properties by Segment: Office *(continued)*

Columbus House, Coventry

Market value (£m)	14.68
Sector	Office
Annualised gross rental (£m)	1.09
Lettable area (ft^2)	53,253
Anchor tenants	TUI Northern Europe Limited
Let by area (%)	100.0
Weighted average unexpired lease term (years)	8.0

- Potential to agree lease surrender with Tui Travel with benefit of existing sublets to First Utility

Churchill Plaza, Basingstoke

Market value (£m)	11.00
Sector	Office
Annualised gross rental (£m)	1.35
Lettable area (ft^2)	135,362
Anchor tenants	Barclays Bank PLC
Let by area (%)	100.0
Weighted average unexpired lease term (years)	1.0

- Sold in February 2016 for £12m which is 9.1% above the 31 December 2015 valuation and 60% above the purchase price

CGU House, Leeds

Market value (£m)	9.92
Sector	Office
Annualised gross rental (£m)	1.01
Lettable area (ft^2)	50,763
Anchor tenants	Aviva Insurance Limited
Let by area (%)	100.0
Weighted average unexpired lease term (years)	1.7

- Refurbishing the upper floors upon Aviva exit in whole or in part in 2017, or earlier by agreement, and remodel existing poor entrance and foyer into strong letting market
- Retail space currently sub-let by Aviva – re-let to stronger leisure/retail operators in 2017

Templeton, Glasgow

Market value (£m)	10.20
Sector	Office
Annualised gross rental (£m)	0.99
Lettable area (ft²)	142,758
Anchor tenants	The Scottish Ministers, The Scottish Sports Council, Heidi Beers Limited
Let by area (%)	87.4
Weighted average unexpired lease term (years)	10.4

- In discussion to re-gear leases to The Scottish Ministers, given lease breaks in 2016 and 2017
- Scope to let refurbished remaining space at Doges in improving Glasgow office market

9 Portland Street, Manchester

Market value (£m)	9.20
Sector	Office
Annualised gross rental (£m)	0.66
Lettable area (ft²)	54,959
Anchor tenants	Mott MacDonald Limited, New College Manchester
Let by area (%)	89.8
Weighted average unexpired lease term (years)	6.7

- Completed legacy issues from former developer's refurbishment
- The building was re-launched into letting market resulting in 90% occupancy from a standing start and an increase in headline rent from £13.50 to £17.50 per sq. ft.
- Balance of space now being marketed at £19.50 per sq. ft.

Chancellor Court, Leeds

Market value (£m)	9.01
Sector	Office
Annualised gross rental (£m)	0.84
Lettable area (ft²)	41,818
Anchor tenants	St James Place Wealth Management Group plc, The Legal Aid Agency
Let by area (%)	100.0
Weighted average unexpired lease term (years)	3.6

- Opportunity to re-gear existing leases or refurbish at staggered expiries given strong occupier demand
- Re-geared leases to St James Place Wealth Management Group for 5 years from September 2016

Our Top 15 Properties by Segment: Industrial

Wardpark Industrial Estate, Cumbernauld

Market value (£m)	19.06
Sector	Industrial
Annualised gross rental (£m)	2.30
Lettable area (ft^2)	709,816
Anchor tenants	Balfour Beatty Utility Solutions Limited, Cummins Limited
Let by area (%)	88.1
Weighted average unexpired lease term (years)	3.9

- Strategy is to let vacant space and re-gear existing leases in improving market
- Cummins' leases re-geared from November 2015
- Will be c. 10% void after completion of under offer leases. Strong investor interest

Road 4 Winsford Industrial Estate, Winsford

Market value (£m)	13.10
Sector	Industrial
Annualised gross rental (£m)	0.90
Lettable area (ft^2)	246,209
Anchor tenants	Jiffy Packaging Limited
Let by area (%)	100.0
Weighted average unexpired lease term (years)	18.8

- Seeking to sell with an improvement in tenant covenants

Marston Business Park, Tockwith, Wetherby

Market value (£m)	6.60
Sector	Industrial
Annualised gross rental (£m)	0.57
Lettable area (ft^2)	223,043
Anchor tenants	Stage One Creative Services Limited, AJ Marshall (Specialist Steels) Limited
Let by area (%)	76.7
Weighted average unexpired lease term (years)	15.0

- Opportunity for active asset management to re-gear existing leases to secure longer term income and refurbish/let vacant units
- Stage One breaks now passed and ongoing discussions with them about re-gear of all tenancies on new five year terms
- Hangar 86 under offer on long lease
- Strong letting prospects and potential for refurbishment and possible new build units

Our Top 15 Properties by Segment: Other (Retail and Residential)

Blythswood House, Glasgow

Market value (£m)	17.40
Sector	Student Accommodation
Annualised gross rental (£m)	0.92
Lettable area (ft^2)	32,000
Anchor tenants	The Glasgow School of Art
Let by area (%)	100.0
Weighted average unexpired lease term (years)	24.7

- Successfully secured surrender of leases with HMRC and back-to-back refurbishment and letting agreement with Glasgow School of Art for student residences on 25-year lease agreement
- Successfully completed refurb works on time to allow handover for 2015-16 term
- Sold in April 2016 for £17.4m

1-4 Llansamlet Retail Park, Swansea

Market value (£m)	30.50
Sector	Retail
Annualised gross rental (£m)	1.00
Lettable area (ft^2)	71,615
Anchor tenants	Steinhoff UK Group Property Limited, Wren Living Limited, Halfords Limited
Let by area (%)	85.7
Weighted average unexpired lease term (years)	9.8

- Let units to Harvey's and Wren
- Successfully completed landlord works packages
- Planning consent being secured for drive-thru facility
- Strategy to let remaining unit and sell into strong investor market with benefit of planning consent

The Point, Glasgow

Market value (£m)	10.50
Sector	Mixed use (trade counter/retail)
Annualised gross rental (£m)	0.78
Lettable area (ft^2)	183,861
Anchor tenants	See Woo Foods (Glasgow) Limited, Howden Joinery Properties Limited, Euro Car Parts Limited
Let by area (%)	100.0
Weighted average unexpired lease term (years)	11.4

- Opportunity to increase rents in improving market at reviews. Re-let 5,000 sq. ft. unit in administration but subject to guarantee
- Successfully secured letting of Unit 5A to HSS Hire
- In negotiations to secure surrender of lease of Unit 4, refurbish and re-let to more suitable trade counter users at new headline level for estate

Principal Risks and Uncertainties

The Board has carried out a robust assessment of the current and future principal risks and uncertainties facing the Group and identified a number of risks which could have a material impact on the Group's performance if not monitored and controlled. The list below sets out the current identified principal risks which the Board is monitoring, but this does not purport to be an exhaustive list of all the risks faced by the Group. The Board is aware that material new risks will arise which, to date, are not deemed material nor warrant significant resources to monitor. As and when such risks are identified the Group will put in place controls to monitor and mitigate.

Investment Risk

Cause	Risk Mitigation
Investment decisions and deviation from the investment strategy could result in lower income and capital returns to Shareholders	• The Board will acquire portfolio interests that together offer Shareholders diversification of investment risk by investing in a range of geographical areas and a large number of assets. • The Board will only invest in office and industrial properties that are situated in the United Kingdom and outside the M25 motorway. However, the Group may invest in property portfolios in which up to 50% of the properties (by market value) are situated within the M25 motorway. • No single property, in the ordinary course, is expected to exceed 10% of the Group's Gross Asset Value. However, the Board may, in exceptional circumstances, consider a property having a value of up to 20% of the Gross Asset Value at the time of investment. • No more than 20% of the Group's Gross Asset Value shall be exposed to any single tenant or group undertaking of that tenant. • Speculative development (ie, properties under construction, but excluding any refurbishment works, which have not been pre-let) is prohibited. • Development, other than such speculative development, is restricted to an aggregate maximum of 15% of the Group's Gross Asset Value at the time of investment or commencement of the development. • The value of the assets is protected by active property management and this is regularly reviewed against the initial business plan for the acquisition.

Tenant Risk

Cause	Risk Mitigation
Type and concentration of tenant could result in lower income	• The income risk has been diversified by letting properties, where possible, to a large number of low risk tenants across a number of different business sectors throughout the United Kingdom.

Economic and Political Risk

Cause	Risk Mitigation
The macro health of the UK economy will impact on borrowing costs, demand by tenants for suitable property and the quality of the tenants	• The Board has instigated a policy of hedging any variable interest rate borrowings. • The anticipated requirement for suitable tenants and the quality of the tenant is managed by the experienced asset management team who maintain close relationships with our current tenants and with prospective tenants. • The Board receives advice on macro-economic risks from the Investment Manager and other advisors and will act accordingly.

Financial and Tax Change Risk

Cause	Risk Mitigation
Changes to the UK tax regime and financial legislation	• The REIT regime, tax and financial legislative changes may have an adverse impact on the Group. The Board receives advice on these changes where appropriate and will act accordingly.

Operational Risk

Cause	Risk Mitigation
Business disruption	• The Asset Manager and Investment Manager have contingency plans in place to ensure there are no disruptions to its core infrastructure which would impinge on the normal operations of the Group. • An annual due diligence exercise is carried out on all principal vendors.

Accounting, Legal and Regulatory Risk

Cause	Risk Mitigation
Changes to the accounting, legal and regulatory legislation	• The Group has robust processes in place to ensure adherence to accounting, tax, legal and regulatory requirements. • All contracts are reviewed by the Group's legal advisors. • The Group has processes in place to ensure compliance with the applicable Listing Rules for a Premium Listed company. The Administrator, in its capacity as Group Accountant, and the Company Secretary attends all Board meetings to be aware of all announcements that need to be made.

Portland – Manchester


No 9
Portland Street
Automatic door

Governance

Board of Directors

Kevin McGrath DL (Chairman – appointed 16 October 2015)

Kevin is a chartered surveyor who has worked in the property industry for 30 years, is a member of the Royal Institute of Chartered Surveyors, the Investment Property Forum, the Worshipful Company of Chartered Surveyors and is a Freeman of the City of London. He is a trustee of a number of charities.

Kevin is Chairman of M&M Property Asset Management and was previously Managing Director and Senior Adviser of F&C REIT Asset Management. Prior to that, Kevin was a founding equity partner in REIT Asset Management, having previously worked as a Senior Investment Surveyor with Hermes Investment Management.

William Eason (Independent non-executive Director – appointed 16 October 2015)

Bill is Director of Charities at Quilter Cheviot. He has been managing diversified high net worth portfolios since 1973, and became a Member of the London Stock Exchange in 1976. He was Chief Investment Officer at Laing & Cruickshank Investment Management, and a former Chairman of Henderson High Income Trust plc.

He is currently a Director of Henderson International Income Trust plc, and The European Investment Trust plc, an Associate of the Society of Investment Professionals and a Fellow of the Chartered Institute for Securities and Investment.

Daniel Taylor (Independent non-executive Director – appointed 16 October 2015)

Dan Taylor is the founder and CEO of Westchester Capital Limited, an investment and advisory firm, specialising in real estate.

From 2011 to 2015, Dan was Chairman and principal shareholder of AIM-listed Avanta Serviced Office Group plc, the UK's second largest serviced office provider until the sale of the business to Regus plc.

Over his career Dan has held both executive and non-executive directorships for various private and listed companies and has extensive experience in investment management, corporate finance and corporate governance. He currently holds active registered status with the FCA as an investment manager (CF30) and has over the last 15 years held the following controlled functions at FCA (or its predecessors) authorised firms: CF1-Director; CF10-Compliance Oversight; CF11-Money Laundering Reporting; CF21-Investment Advisor; CF27-Investment Management.

Stephen Inglis (non-executive Director – appointed 16 October 2015)

Stephen Inglis is the group property director and chief investment officer of the Asset Manager. He has over 25 years' experience in the commercial property market, the majority of which has been working in the investment and development sectors.

Stephen established Inglis Howie in 2004, a specialist property investment consultancy business, with the objective of providing a superior quality of advice and service that he had witnessed being provided by larger practices.

In his current role Stephen has, since June 2013, acquired or sold 150 assets in deals totalling in excess of £350 million. He has responsibility for running all property functions within the Asset Manager's structure, from investment management, asset and property management, to residential and commercial development. He was heavily involved in the setting up and equity raising of Tosca Property Fund I and instrumental in the equity raising of Tosca Property Fund II.

Martin McKay (non-executive Director – appointed 22 June 2015)

Martin McKay was appointed Chief Financial Officer to the Investment Manager in August 2007, but has been involved with the Toscafund business since its foundation in 2000.

Earlier in his career, Martin was the Chief Accountant at Sterling Brokers Limited, a money broking company. He graduated in Microbiology from Warwick University in 1983 and qualified as a member of the Institute of Chartered Accountants in England and Wales in October 1987.

Report of the Directors

The Directors of Regional REIT Limited present their report and the consolidated audited financial statements of the Company and the Group for the year ended 31 December 2015. The Company is incorporated in Guernsey, Channel Islands under The Companies (Guernsey) Law, 2008, as amended is registered with the Guernsey Financial Services Commission as a Registered Closed-Ended Companies Collective Investment Scheme pursuant to the Protection of Investors (Bailiwick of Guernsey) Law, 1987, as amended and the Registered Collective Investment Scheme Rules 2015 ("the RCIS Rules").

Dividend

No dividend was declared or paid during the period to 31 December 2015.

On 7 March 2016, the Company declared a dividend of one pence per share. This dividend was paid on 15 April 2016 to Shareholders on the register as at 28 March 2016. The dividend constituted a Property Income Distribution ("PID") element and a non-PID element as follows:

- PID: 0.6572p per share
- Non-PID: 0.3428p per share

Having sought the views of key shareholders and having taken professional advice in respect of shareholder expectations and industry practice, on 16 February 2016 the Company announced its intention to move to the payment of quarterly dividends instead of bi-annual dividends. This policy took effect from 1 January 2016, but the payment of future dividends is subject to market conditions, the Company's performance, its financial position and the business outlook. Subject to this, the Directors intend to reinvest proceeds from the disposal of assets in accordance with the Investment Policy.

In order to maintain REIT status, the Company will be required to meet a minimum distribution test for each accounting period that it is a REIT. This minimum distribution test requires the Company to distribute at least 90% of the income profits (broadly, calculated using normal tax rules) of the Company to the extent that they are derived from the Property Business of the Company (other than any Property Business carried on outside the UK by non-UK tax resident members of the Company).

Shareholders are not being asked to vote at the Company's AGM on 27 May 2016 on the payment of a dividend. Given the requirement to distribute at least 90% of income profits and that the views of major Shareholders were sought before adopting a policy of paying dividends quarterly, it is not thought that this adversely impacts Shareholders' rights.

Share Capital

Following Admission of its Ordinary Shares to the premium listing segment of the London Stock Exchange, the Company's total issued share capital is 274,217,264 Ordinary Shares.

All of the Company's Ordinary Shares are listed on the premium listing segment of the London Stock Exchange and each Ordinary Share carries one vote.

There is only one class of Ordinary Shares in issue for the Company, in adherence of REIT requirements. The only other Shares the Company may issue are particular types of non-voting restricted preference Shares.

Details of the Placing and Reorganisation, prior to the Company's Shares being admitted to trading on the London Stock Exchange, were set out in the Prospectus dated 3 November 2015. As part of the issue of 274,217,264 Ordinary Shares, the Sponsor placed 80,000,000 Ordinary Shares with certain institutional and professional investors. The Company has made no market or off-market purchases of its own Shares and has not issued any new Shares since Admission.

Restrictions on the Transfer of Shares

Subject to the Articles of Association, as well as applicable foreign securities laws, a Shareholder may transfer all or any of his Ordinary Shares in any manner which is permitted by the Companies Law or in any other manner which is from time to time approved by the Board.

If any Shares are owned directly, indirectly or beneficially by a person believed by the Board to be a "Non-Qualified Holder" (see below), the Board may give notice to such person requiring him either: (i) to provide the Board within 30 days of receipt of such notice with sufficient satisfactory documentary evidence to satisfy the Board that such person is not a Non-Qualified Holder, or (ii) to sell or transfer his Ordinary Shares to a person who is not a Non-Qualified Holder within 30 days and within such 30 days to provide the Board with satisfactory evidence of such sale or transfer and pending such sale or transfer, the Board may suspend the exercise of any voting or consent rights and rights to receive notice of or attend any meeting of the Company and any rights to receive dividends or other distributions with respect to such Shares. Where condition (i) or (ii) is not satisfied within 30 days after the serving of the notice, the person will be deemed, upon the expiration of such 30 days, to have forfeited his Shares. If the Board in its absolute discretion so determines, the Company may dispose of the Shares at the best price reasonably obtainable and pay the net proceeds of such disposal to the former holder.

A Non-Qualifying Holder is defined as any person whose ownership of Ordinary Shares, or the transfer of Ordinary Shares to such person, may:

- cause the Company's assets to be deemed "plan assets" for the purposes of the US Internal Revenue Code of 1986 (as amended), or US Employee Retirement Income Security Act of 1974 (as amended);
- cause the Company to be required to register as an "investment company" under the US Investment Company Act 1940;
- cause the Company or any of its securities to be required under the US Exchange Act, the US Securities Act or any similar legislation;
- cause the Company not being considered a "Foreign Private Issuer" as such term is defined in rule 3b-4(c) under the US Exchange Act;
- cause the Investment Manager to be required to register as a municipal advisor under the US Exchange Act;
- result in the Company being disqualified from issuing securities pursuant to Rule 506 of Regulation D under the US Securities Act;
- cause a loss of partnership status for US federal income tax purposes or a termination of the US partnership under US Internal Revenue Code of 1986 (as amended), Section 708;
- result in a person holding Ordinary Shares in violation of the transfer restrictions put forth in any prospectus published by the Company from time to time; or
- cause the Company to be a "controlled foreign corporation" for the purposes of Section 957 of the US Internal Revenue Code of 1986, (as amended), or may cause the Company to suffer any pecuniary or tax disadvantage or any person who is deemed to be a Non-Qualified Holder by virtue of their refusal to provide the Company within formation that it requires in order to comply with its obligations under exchange of in format.

Asset Manager

London & Scottish Investments Limited has been appointed as the Asset Manager to provide property management services to the Company (and Regional Commercial Midco Limited ("Midco") and the Jersey limited companies which hold the properties directly) with effect from the Company's Shares being admitted to trading on the London Stock Exchange.

Under the Asset Management Agreement, the Asset Manager is responsible for the day to day management of the Property Portfolio, subject to the Investment Objective of the Company and its Investment Policy (as set out on page 8) and the overall supervision of the Board. The Asset Manager will also advise the Company on the acquisition, management and disposal of the real estate assets of the Company.

Notice of termination of the Asset Management Agreement may be issued at any time on or before the expiry of an Initial Period (being the period of 5 years from the date of the Admission of the Company's Shares to trading), in which case the agreement will terminate one year after the expiry of the Initial Period. If a notice to terminate is not given, the agreement shall continue for recurring three year periods ("Subsequent Periods"). Notice to terminate may be given no later than one year prior to the end of a Subsequent Period, in which case the agreement will terminate at the end of the Subsequent Period.

Notwithstanding the initial term, the Asset Management Agreement may also be terminated with immediate effect earlier in certain circumstances, including a material unremedied breach by the Asset Manager or by the Investment Manager.

The Company or Midco may terminate the Asset Management Agreement with immediate effect by giving written notice to the Asset Manager in the event of the liquidation or insolvency (or analogous event) of the Asset Manager.

At any time after the later of (i) the fifth anniversary of the date of the Asset Management Agreement and (ii) the first date on which EPRA NAV exceeds £750,000,000, the Board, the Investment Manager and the Asset Manager may decide, with the approval of an Ordinary Resolution (upon which neither the Asset Manager nor its associates may vote) that individuals providing the services under the Asset Management Agreement are to become an internal resource of the Company in lieu of the appointment of the Asset Manager under the Asset Management Agreement.

Investment Manager and Alternative Investment Fund Manager

The Company has appointment Toscafund Asset Management LLP as the Company's Investment Manager (and to provide certain related services to Midco and the Jersey limited companies which hold property directly). The Investment Manager is responsible for the day to day management of the Company's investments, subject to the investment objective and the investment policy of the Company. The Investment Manager is an Alternative Investment Fund Manager ("AIFM") under the Alternative Investment Fund Managers Directive ("AIFMD").

Notice of termination of the Investment Management Agreement may be issued at any time on or before the expiry of an Initial Period (being the period of 5 years from the date of the Admission of the Company's Shares to trading), in which case the agreement will terminate one year after the expiry of the Initial Period. If notice to terminate is not given, the agreement shall continue for recurring three year periods ("Subsequent Periods"). Notice to terminate may be given no later than one year prior to the end of a Subsequent Period, in which case the agreement will terminate at the end of the Subsequent Period.

Notwithstanding the initial term, the Investment Management Agreement shall terminate with immediate effect in certain circumstances, including the Investment Manager ceasing for any reason to be authorised under FSMA to carry out the regulated activity of managing an AIF, or the Investment Manager committing a material breach of its obligations either (i) not capable of being remedied (after the Company has served notice to terminate) or (ii) which is capable of being remedied and failing to remedy the same within 30 days after service of notice by the Company requesting the same to be remedied.

At any time after the later of (i) the fifth anniversary of the date of the Investment Management Agreement and (ii) the first date on which EPRA NAV exceeds £750,000,000, the Board and the Investment Manager may decide, with the approval of an Ordinary Resolution (upon which neither the Investment Manager nor its associates may vote) that individuals providing the services under the Investment Management Agreement are to become an internal resource of the Company in lieu of the appointment of the Investment Manager under the Investment Management Agreement.

Management and Performance Fees

The Investment Manager and the Asset Manager are each entitled in each financial year (or part thereof) to 50% of an annual management fee on a scaled rate of 1.1% of the Company's Net Asset Value ("NAV").

A performance fee is also payable in respect of each financial year (although the first Performance Fee will be paid for the period from the commencement of trading on 6 November 2015 to 31 December 2018) where the year-end NAV per share exceeds a specified "high-water mark". The "high water mark" is equal to the greater of the highest year-end NAV per Ordinary Share in any previous financial year and the "Placing Price" (being 100 pence per Ordinary Share).

Administrator

The Company appointed Jupiter Fund Services Limited as the Administrator to the Company pursuant to an Administration Agreement. Under the terms of the Administration Agreement, the Administrator is responsible for the Company's general administrative functions such as maintaining Company's records and statutory registers, and acting as the Company's Designated Administrator. The Administrator has outsourced certain of its services under the Administration Agreement to Capita Sinclair Henderson Limited as Sub-Administrator. An annual fee of £127,000 is payable by the Company to the Administrator in respect of these services.

The Administration Agreement is for an initial term of one year, following which it will automatically renew for 12 month periods unless notice of termination is served by either party at least 90 days prior to the end of each period.

Viability Statement and Going Concern

The Board confirm that it has a reasonable expectation that the Group will continue to operate and meet its liabilities, as they fall due, over the next 2 years. The Board's assessment has been made with reference to the Group's current financial position and prospects, strategy, principal risks and how these are managed in the Chairman's Statement.

In making this statement the Board has considered the resilience of the Group under difference risk scenarios, and the effectiveness of any mitigating actions. The assessment has considered the potential impacts of these risks on the business model, future performance, solvency and liquidity over the period.

The expectation is underpinned by the regular Board briefings provided by the Asset and Investment Managers. These reviews consider both the market opportunity and the associated risks, principally the ability to raise third-party funds and invest capital. These risks are closely monitored by the Board.

The Directors have carefully reviewed areas of potential financial risk and have reviewed cash flow forecasts. No material uncertainties have been detected which would influence the Group or the Company's ability to continue as a going concern for the next three years. The Directors have satisfied themselves that the Group and the Company have adequate financial resources to continue in operational existence for the foreseeable future.

Accordingly, the Board of Directors considers that it is appropriate to prepare the financial statements on a going concern basis.

Creditor Payment Policy

It is the policy of the Company to settle invoices of suppliers in accordance with their stated terms.

Anti-Bribery Policy

The Group continues to be committed to carrying out its business fairly, honestly and openly. It has adopted an anti-bribery policy which aims to prevent bribery being committed by Directors and persons associated with the Group on the Company's behalf and to ensure compliance with the Prevention of Corruption (Bailiwick of Guernsey) Law, 2003 and the Bribery Act 2010 (which is UK Law).

Directors

The interests of the Directors of the Company together with their beneficial interests in the Company's ordinary share capital as at the date of this report are given below:

Director	Number of Ordinary Shares	Percentage (%)
Daniel Taylor	150,000	0.05
William Eason	100,000	0.04
Stephen Inglis	1,502,549	0.55
Kevin McGrath	–	–
Martin McKay	–	–

Substantial shareholdings

As at 18 April 2016 the Directors were aware that the following Shareholders were directly or indirectly interested in 5% or more of the issued Ordinary Shares of the Company.

Shareholder	Number of Ordinary Shares	Percentage (%)
Martin Hughes*	57,952,993	21.13
Torreal SA	14,800,721	5.40
Johnson Tosc LLC	14,692,745	5.36

* By virtue of Martin Hughes' voting rights control of (1) Toscafund Limited (which, holds 19,556,508 Ordinary Shares) (2) Toscafund Investments Limited which holds 27,154,198 Ordinary Shares and (3) Toscafund Asset Management LLP, which acts as discretionary investment manager of each of Tosca Opportunity, Tosca Mid Cap and The Pegasus Fund Limited (which hold 7,900,444, 2,530,676 and 811,590 Ordinary Shares in the Company respectively).

Directors and Officers Liability Insurance

Directors and Officers Liability insurance is maintained through the Asset Manager's own insurance policy. Save for the indemnity provisions in the Company's Articles of Association, there are no qualifying third party indemnity provisions in force.

Post Balance Sheet Events

Details of significant post balance sheet events are set out on page 24.

Financial Instruments

Details of the risk mitigation factors relating to Financial Instruments are set out in the notes to the Accounts note 25.

Annual General Meeting

The annual general meeting ("AGM") of the Company will be held on 27 May 2016 at the offices of the Company's solicitors, MacFarlanes LLP, 20 Cursitor Street, London EC4A 1LT. A copy of the notice of AGM, with each separate issue presented as a separate resolution, is available to view on the Company's website (www.regionalreit.com) and has been posted to Shareholders, together with an explanation of the resolutions proposed.

As well as the normal business at such an AGM, Shareholders will be asked to:

- Grant authority to Directors to make market purchases of the Company's Shares; and
- Grant authority to Directors to issue new Shares in the Company, free from pre-emption rights.

The Directors consider that all resolutions put to the Shareholders at the AGM are in the best interests of the Company and those Directors holding Shares will be voting in favour of the resolutions. A copy of the Company's articles of association and the letters of appointment of the non-executive Directors will be available for inspection 15 minutes prior to the AGM until the conclusion of the AGM.

The total number of proxy votes lodged in respect of each resolution prior to the meeting will be made available at the meeting and on the Company's website, www.regionalreit.com, following the AGM.

Listing Rule Disclosures

The following table provides references to where the information required by Listing Rule 9.8.4R is disclosed:

Listing Rule requirement	Location
A statement of the amount of interest capitalised during the period under review and details of any related tax relief.	Not applicable
Information required in relation to the publication of unaudited financial information.	Not applicable
Details of any long-term incentive schemes.	The Group does not operate a long-term incentive scheme
Details of any arrangements under which a Director has waived emoluments, or agreed to waive any future emoluments, from the Company.	No such waivers have been agreed
Details of any non pre-emptive issues of equity for cash.	No such share allotments were made during the year
Details of any non pre-emptive issues of equity for cash by any unlisted major subsidiary undertaking.	No such share allotments were made during the year
Details of parent participation in a placing by a listed subsidiary.	This is not applicable to the Group
Details of any contract of significance in which a Director is or was materially interested.	Details of the agreements with the Investment Manager and Asset Manager are set out on page 36 and 37
Details of any contract of significance or for the provision of services between the Company (or one of its subsidiaries) and a controlling shareholder.	This is not applicable to the Group
Details of waiver of dividends by a shareholder.	No shareholder has agreed to waive receipt of dividends
Board statement in respect of relationship agreement with a controlling shareholder.	The Company has no controlling shareholder

Disclosure of Information to Auditors

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditors are unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

Status for Taxation

The Director of Income Tax in Guernsey has granted the Company exemption from Guernsey income tax under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989 and the income of the Company may be distributed or accumulated without deduction of Guernsey Income Tax. Exemption under the above mentioned Ordinance entails the payment by the Company of an annual fee of £1,200.

During the period, the Company's properties have been held in various subsidiaries which are subject to UK tax treatment under the REIT regime.

Shareholders who are in any doubt concerning the taxation implications of a REIT should consult their own tax advisers.

Corporate Governance

The Directors have prepared a statement on how the principles and recommendations of the AIC Corporate Governance Code have been applied. This report may be found on pages 42 to 46.

Environmental, Social and Employment Issues

The Company is a REIT and so its own direct environmental impact is minimal. The Group has no greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emissions producing sources.

The Group has no employees. There are five Directors, all of whom are male. The Directors have agreed that appointments to the Board should be made on the basis of the Group's specific needs and should be based on merit without reference to age, gender or religious belief.

The Board does not intend to apply targets for gender board diversity at this time.

For and on behalf of the Board

Kevin McGrath
Chairman
18 April 2016

Statement of Directors' Responsibilities

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

Guernsey company law requires the Directors to prepare group and company financial statements for each financial year in accordance with generally accepted accounting principles. The Directors are required under the Listing Rules of the Financial Conduct Authority to prepare group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and have elected under Guernsey company law to prepare the Company's financial statements in accordance with IFRS as adopted by the EU.

The financial statements are required by law to give a true and fair view of the state of the Group's and the Company's affairs at the end of the financial period and of the profit or loss of the Group and the company for that period and are required by IFRS adopted by the EU to present fairly the financial position of the Group and the Company and the financial performance of the Group and the Company.

In preparing the Group and the Company financial statements, the Directors should:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the company will continue in business.

The Directors are responsible for keeping accounting records which are sufficient to show and explain the Group's and the Company's transactions and are such as to disclose with reasonable accuracy at any time the financial position of the Group and the company and enable them to ensure that the financial statements comply with the requirements of The Companies (Guernsey) Law 2008 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Regional REIT Limited website.

Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility Statement of the Directors in respect of the Consolidated Annual Report

Each of the Directors, whose names and functions are listed on page 34 confirm that to the best of each person's knowledge:

- The financial statements, prepared in accordance with the applicable set of accounting standards (as detailed above) and the Companies Law, give a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer and the undertakings included in the consolidation taken as a whole;
- The management report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principle risks and uncertainties they face; and
- The annual report and accounts as a whole, is fair balanced and understandable and provides the information necessary for Shareholders to assess the Group's performance, business model and strategy.

For and on behalf of the Board

Kevin McGrath
Chairman
18 April 2016

Corporate Governance Statement

The Listing Rules require that the Directors must "comply or explain" against the UK Corporate Governance Code. In addition the Disclosure Rules and Transparency Rules require the Company to: (i) make a corporate governance statement in its annual report and accounts based on the corporate governance code to which it is subject or with which it voluntarily complies; and (ii) describe its internal control and risk management arrangements. The Board has agreed to comply with the AIC Code of Corporate Governance (the "AIC Code") produced by the Association of Investment Companies ("AIC"), except as set out below. The FRC has confirmed that compliance with the AIC Code would satisfy an investment company's obligations to comply with the UK Corporate Governance Code.

The GFSC's "Finance Sector Code of Corporate Governance" (the "GFSC Code") applies to all companies that hold a licence from the GFSC under the regulatory laws or which are registered or authorised as collective investment schemes, which includes the Company. Companies which report against the AIC Code are deemed to meet the requirements of the GFSC Code.

The UK Corporate Governance Code can be viewed at; https://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-2014.pdf
The AIC Code can be viewed at; http://www.theaic.co.uk/sites/default/files/uploads/files/AICCodeofCorporateGovernanceforGuernsey-domiciledinvestmentcompaniesFeb15.pdf
The GFCS Code can be viewed at; http://www.gfsc.gg/The-Commission/Policy%20and%20Legislation/20160218%20-%20Finance%20Sector%20Code%20of%20Corp%20%20Gov.pdf

The Directors recognise the value of the AIC Code and believe that reporting against the provisions and recommendations of the AIC Code will provide Shareholders with better information. Accordingly, the Company has taken appropriate measures to ensure that the Company complies with the 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 that these provisions are not relevant to the Company's position, being an externally managed investment company. In particular, all of the Company's day-to-day functions are outsourced to third parties. As a result, the Company has no executive Directors, employees or internal operations. The Company has, therefore, not reported on these provisions.

AIC Code Principle		Compliance Statement	Instances of Non-Compliance
1	The Chairman should be independent	The Chairman, Kevin McGrath, was independent of the Investment Manager at the time of his appointment and remains so. The Chairman has not been employed by either of the Managers in the five years prior to his appointment, nor did he act as advisor to either Manager in that period and he does not hold any other directorship of an investment company managed by the Asset Manager or the Investment Manager. There is a clear division of responsibility between the Chairman, the Directors, the Asset Manager, the Investment Manager and the Company's other third-party service providers.	None
2	A majority of the Board should be independent of the Managers	The Board consists of five Directors; three Independent Directors (Kevin McGrath, William Eason and Daniel Taylor) who are each independent of the Investment Manager; and two non-independent Directors (Stephen Inglis and Martin McKay) who sit on the Board and report on the activities of the Asset Manager and Investment Manager respectively.	None
3	Directors should be submitted for re-election at regular intervals. Nomination for re-election should not be assumed but based on disclosed procedures and continued satisfactory performance	All Directors must submit themselves for re-election by Shareholders on a regular basis. The Board will undertake an annual evaluation going forward which will take into account the performance of Directors, and if considered appropriate, a recommendation will be made that Shareholders vote in favour of their re-election at the AGM.	None
4	The Board should have a policy on tenure, which is disclosable in the annual report	The Board's policy on tenure is that continuity and experience are considered to add significantly to the strength of the Board and, as such, no limit on the overall length of service of any of the Directors.	None
5	There should be full disclosure of information about the Board	The biographical details for each Director is set out on page 34 of this Report and demonstrate the wide range of skills and experience they bring to the Board. Details of the Board's Committees and composition are set out in the Terms of Reference which are available on the Company's website at www.regionalreit.com The Audit Committee report is set out on page 48 and 49 of this annual report. The Board currently has established a Management Engagement and Remuneration Committee. Details of the activities of this committee are shown on page 49. The Board will monitor the committee structure and will carry out a regular review as part of the annual Board evaluation process.	The Chairman also chairs the Management Engagement and Remuneration Committee. Given the size of the Board, it is not thought necessary to separate the role of chairmanship of the committee. The Chairman will not be involved in the setting of his own remuneration. As the Company's shares listed in November of 2015, no meetings of any Committee took place during the year.
6	The Board should aim to have a balance of skills, experience, length of service and knowledge of the Company	The skills and experience of the Directors was assessed as part of the IPO process. There are no gaps of skills that have been subsequently identified by the Board. The Board considers that it has sufficient experience and knowledge and will evaluate its skills and knowledge on an annual basis.	None

AIC Code Principle		Compliance Statement	Instances of Non-Compliance
7	The Board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual Directors	The Board will undertake a full evaluation on an annual basis in respect of its own performance and that of its Committees and individual Directors.	As the majority of the Board were only appointed in the fourth quarter of 2015, a full evaluation has not yet been undertaken.
8	Director remuneration should reflect their duties, responsibilities and the value of their time spent	Details of the remuneration arrangements for the Directors of the Company can be found in the Remuneration Report which is set out on page 51 of this Report. The Management Engagement and Remuneration Committee annually reviews the fees paid to the Directors (and will compare these with its peer group), taking into account the level of commitment and responsibility of each Board member.	None
9	The independent Directors should take the lead in the appointment of new Directors and the process should be disclosed in the annual report	The independent non-executive Directors would be expected to lead the process of the appointment of any new Director to the Board.	The Company does not utilise a separate Nomination Committee as this is not thought appropriate given the size of the Board. The functions of such a committee are undertaken by the Board as a whole.
10	Directors should be offered relevant training and induction	Any new Directors will receive an induction from the Company Secretary on joining the Board and all Directors will continue to receive other relevant training and updates as necessary from the Company Secretary. The annual Board evaluation process provides Directors with an opportunity to identify ongoing training requirements.	None
11	The Chairman (and the Board) should be brought into the process of structuring a new launch as soon at an early stage	The independent non-executive Directors were brought into the IPO process as soon as practicable and each attended two Board meetings prior to the Company's Shares being admitted to trading in order to familiarise themselves with the process of structuring a new launch.	None
12	Boards and managers should operate in a supportive, co-operative and open environment	The Board meets regularly and has a representative of the Asset Manager and the Investment Manager as Directors. This facilitates communication between the two Managers and the Board and supplements the regular reporting at Board meetings.	None
13	The primary focus at regular Board meetings should be a review of investment performance and associated matters, such as gearing, asset allocation, marketing/ investor relations, peer group information and industry issues	The Board receives regular updates at Board meetings on performance. The Board is responsible for establishing the investment objectives, strategy and benchmarks, the permitted types or categories of investments and the level of permitted gearing and borrowings. The investment management agreement with the Investment Manager sets out restrictions on the activities of the Investment Manager that do not require Board approval. The Chairman is responsible for ensuring that the Directors receive accurate, timely and clear information.	None

AIC Code Principle		Compliance Statement	Instances of Non-Compliance
14	Boards should give sufficient attention to overall strategy	The Board is responsible for setting the overall strategic objectives of the Company and meets once per year to discuss strategy specifically.	None
15	The Board should regularly review both the performance of, and contractual arrangements with, the manager	The Management Engagement and Remuneration Committee will meet at least once annually to review the performance of the Asset Manager and the Investment Manager as well as other contractual arrangements. Further details are set out on page 36 and 37 of this report.	None
16	The Board should agree policies with the manager covering key operational issues	Representatives of the Asset Manager and Investment Manager attend each meeting of the Board to address questions on operational issues and discuss specific matters.	None
17	Board should monitor the level of the share price discount or premium (if any) and, if desirable, take action to reduce it	The Company's share price is monitored continually and will be considered as appropriate at Board meetings.	None
18	The Board should monitor and evaluate other service providers	Performance of service providers will be reviewed on an annual basis. More information on a number of the Company's other service providers is set out on page 93 of this Report.	None
19	The Board should regularly monitor the shareholder profile of the company and put in place a system for canvassing shareholder views and for communicating the Board's view to Shareholders	The Board believes that the maintenance of good relations with both institutional and retail Shareholders is important for the long-term prospects of the Company. The Board receives feedback on the views of Shareholders from its corporate broker and the Investment Manager. Through this process the Board seeks to monitor the views of Shareholders and to ensure an effective communication programme. The Board believes that the annual general meeting provides an appropriate forum for investors to communicate with the Board, and encourages participation. The Notice of Meeting which is available to view on the Company's website sets out the business of the meeting. The Company regularly reviews the shareholder profile of the Company. Shareholders may also contact the Company directly through the Investor section of the Company's website www.regionalreit.com	None

AIC Code Principle		Compliance Statement	Instances of Non-Compliance
20	The Board should normally take responsibility for, and have a direct involvement in, the content of communications regarding major corporate issues if the Asset or Investment Manager is asked to act as spokesperson	The Board is fully engaged with the Investment Manager. Communications are considered by the Board before release.	None
21	The Board should ensure that Shareholders are provided with sufficient information for them to understand the risk:reward balance to which they are exposed by holding the Shares	The Board believes that sufficient information is available to Shareholders to understand the risk:reward balance to which they are exposed by holding Shares in the Company. Details of the Principal Risks and their management are set out on pages 30 to 31 and 47. The investment objective and policy is set out on page 8. Performance of business and of the Asset Manager and Investment Manager is discussed in the Chairman's Statement and the Asset and Investment Manager's Reports on pages 5 to 7 and 10 to 16. Details of the performance fees payable to the Asset Manager and Investment Manager are set out on pages 36 and 37. The going concern and viability statements of the Group are set out on page 37. A full portfolio of the Company's assets was included in the Prospectus published in November 2015. There is a formal set of matters reserved for decision by the Board which, together with the terms of the Asset Management and Investment Management Agreements, restricts the freedom of the Asset Manager and the Investment Manager. Details of the Group's borrowings are set out in the notes to the accounts. Information about the Group's banking covenants was disclosed in the Prospectus of 3 November 2015 and have not changed significantly.	No specific disclosure has been made in respect of the Group's ongoing charges ratio. This is because the short period from Admission to 31 December 2015 would mean such information was not representative.

Internal Controls and the Management of Risk

The Board has overall responsibility for the Group's systems of internal controls and for reviewing their effectiveness, ensuring that risk management and control processes are embedded in day-to-day operations. The Board has established an ongoing process for identifying, evaluating and managing significant risks with the aim of helping to safeguard the Group's assets. The Board exercises its oversight of financial, reporting, compliance, operational and overall risks by relying on regular reporting on performance and other management information from the Asset Manager and Investment Manager. These procedures are designed to manage rather than eliminate risk. The Board intends to manage risks as set out below:

- The Board, assisted by the Audit Committee, will conduct a risk and control assessment on an annual basis, including a review of the internal controls procedures of the Group's third party service providers.
- The responsibilities for the investment management, asset management, accountancy and depository functions are segregated and the procedures of the third-party service providers are designed to safeguard the Group's assets.
- The Board is kept regularly updated by the Asset Manager and the Investment Manager outside of scheduled Board meetings and both provide reports at each meeting of the Board.
- Under the terms of the Investment Management Agreement between the Group and the Investment Manager, Board level authority is required for the approval of investments and loans or capital purchases of £15m or more in value and for disposals exceeding £5m in value.
- Further details of Principal Risks and Uncertainties affecting the Group are set out on pages 30 and 31.

Board and Committees

Audit Committee Report

Committee Structure and Duties

The Board has constituted an Audit Committee, the membership of which comprises the three independent non-executive Directors (William Eason, Daniel Taylor and Kevin McGrath). The Chairman of the Company is a member of the Audit Committee but does not act as committee Chairman. The Audit Committee is chaired by William Eason whom the Board considers to have competence in accounting. All members of the Audit Committee are considered to have relevant experience in the industry in which the Group operates.

No individual who is not a member of the Audit Committee is entitled to attend or to vote at its meetings but the Audit Committee may invite anyone to attend the meetings and representatives of the external auditor are invited to attend as necessary.

The Audit Committee reports, and makes recommendations, to the Board after each of its meetings.

The Terms of Reference of the Audit Committee are available on the Company's website at:
http://www.regionalreit.com/investors/corporate-governance

The principal duties of the Audit Committee are:

- to monitor the integrity of the financial statements of the Group;
- to report to the Board on any significant financial reporting issues and judgments having regard to any matters communicated to it by the auditor;
- as requested by the Board, to review the contents of the Annual Report and Accounts and advise the Board on whether, taken as a whole, the report is fair, balanced and understandable and provides Shareholders with sufficient information to assess the Group's performance, business model and strategy;
- to keep under review the adequacy of the Group's internal financial controls and risk management functions;
- to manage the relationship with the Group's external auditor, including reviewing the auditors remuneration, independence and performance and making recommendations to the Board as appropriate;
- to review the Group's procedures for detecting fraud and for the managers to raise concerns (in confidence) about potential financial wrongdoing; and
- to regularly review the need for an internal audit function.

The Audit Committee is to meet at least twice annually. As the Company's Shares were first admitted to trading on the London Stock Exchange in November 2015, the Audit Committee did not meet during the period under review and has met once since the Company's year end.

Significant Matters Considered by the Audit Committee

Since the year end, the Audit Committee has met to consider the integrity of the annual financial report and accounts for the period to 31 December 2015. The Audit Committee recognises that the valuation of the properties within the portfolio is central to the Group's business and that errors could have a material impact on the Group's net asset value. Properties are independently valued by a specialist third party service provider; DTZ Debenham Tie Leung Limited (trading as Cushman & Wakefield). Since the year end, the Audit Committee has considered the outcomes of the independent valuation process and has discussed these with the Investment Manager. The valuation has been a key area of focus for the external auditor as part of the audit process and the Committee discussed the matter with RSM UK Audit LLP.

The Committee also reviewed two further key areas of audit focus, the adoption of acquisition accounting and the first time adoption of international financial reporting standards, which were also discussed with RSM UK Audit LLP.

The Audit Committee will also met with the external auditor without the Investment Manager present to discuss the outcomes of the audit.

The review of the audit process in 2016 did not identify any significant issues. In order to help safeguard the external auditor's independence and objectivity, the Audit Committee has now implemented a policy on the engagement of the Auditor to supply non-audit services, taking into account the recommendations of the Accounting Practices Board, and does not believe there to be any impediment to the Auditor's objectivity and independence.

All non-audit work to be carried out by the Auditor must be approved by the Audit Committee in advance and such approval will not be granted in circumstances where it is considered that the nature or cost of the work could interfere with the Auditor's independence. The cost of non-audit services provided by the Auditor for the financial year ended 31 December 2015 was £319,000. These services related to work undertaken in connection with the Admission of the Company's Shares to trading (£250,000) and transaction services provided to the subsidiaries (£69,000). Fees paid to the Auditor are set out in note 7. The total fee in respect of audit work for the period ended 31 December 2015 was £105,000.

Internal Audit

The Audit Committee has determined that there is no need for an internal audit function given the limited size and complexity of the Group and its business.

Review of Auditor Appointment

The Audit Committee has considered the appointment of the external auditor and taken account of the short period of time since the Company's Shares have been admitted to trading. RSM UK Audit LLP have expressed its willingness to continue to act and the Audit Committee has recommended to the Board the continued appointment of RSM UK Audit LLP as the Group's external independent auditor.

Management Engagement and Remuneration Committee

Committee Structure and Duties

The Board has constituted a Management Engagement and Remuneration Committee (the "MERC") whose membership consists of the independent Non-Executive Directors. The MERC is chaired by Kevin McGrath who is also the Chairman of the Company.

Although no individual who is not a member of the MERC is entitled to attend and vote on matters at its meetings, the Committee may invite anyone to attend at its discretion.

The MERC's Terms of Reference are available on the Company's website at:
http://www.regionalreit.com/investors/corporate-governance

The principal duties of the MERC are:

- to have responsibility for setting the remuneration policy for all Directors and the Chairman;
- to monitor the level and structure of remuneration of the Directors, Asset Manager and Investment Manager;
- to recommend and monitor the appropriateness of the ongoing appointment of the Asset Manager and Investment Manager; and
- within the terms of the agreed policy and in consultation with the Chairman, to determine the total individual remuneration package of each Director and external manager, the Chairman including bonuses, incentive payments and share options or other share awards.

No individual is to be involved in discussions about his own remuneration.

The MERC reports, and makes recommendations, to the Board after each meeting. The MERC is to meet at least once annually.

Activities During the Year

The MERC did not meet during the period to 31 December 2015 as the Company's Shares were only admitted to trading in November 2015. Since the year end, the MERC has met once to consider the continued appointment and remuneration of the Asset Manager and Investment Manager and to consider the remuneration of the independent non-executive Directors. The MERC has concluded that the remuneration of the Asset Manager and Investment Manager (details of which are set out on pages 36 and 37 and in the notes to the accounts) remains appropriate as the Company's Shares were only admitted to trading in November 2015 there has only been a limited period for the MERC to consider the performance of the Asset Manager and Investment Manager, however, the MERC considers that both managers have performed well to date in pursuing the Company's stated Investment Policy and Objectives. Therefore the MERC has recommended the continued appointment of both the Asset Manager and Investment Manager to the Board. As the independent non-executive Directors' fees were determined at the time the Company's Shares were admitted to trading, the MERC concluded that it was not appropriate at the time to review their remuneration in detail. Further details of the Directors' remuneration can be found in the Remuneration Report.

Nomination Committee

The Board has concluded that, given the limited size of the Board and the nature of the Group's business, it is not necessary for the Board to constitute a separate nomination committee. Consideration of succession and director appointments will be led by the independent non-executive Directors when appropriate.

Board Meetings and Attendance

The Board shall meet at least four times in a calendar year and six meetings have been scheduled for the year to 31 December 2016. Ad hoc meetings are also held as and when necessary.

The Board receives regular updates on investments and operational matters from the Asset Manager and Investment Manager at these meetings. Representatives of the Company Secretary, Administrator and other third party service providers are present at these meetings as required. The Board receives updates at meetings on investment matters and on operational matters from the Asset Manager and Investment Manager and Directors are kept up to date by the Managers outside of the meetings.

During the period to 31 December 2015, the Board met on three occasions and the attendance by the Directors is shown below. No meetings of the Board committees were held during the period.

Director	Board
Kevin McGrath	3/3
William Eason	3/3
Daniel Taylor	3/3
Stephen Inglis	2/3
Martin McKay	3/3

Directors' Terms of Appointment and Tenure

The Company has no executive directors and accordingly no Director has a service contract with the Company. Each Director has in place a letter of appointment with the Company. The letter of appointment for each Director are available for inspection at the Company's registered office (during normal business hours) and up to 15 minutes prior to the Company's AGM.

The Board's policy on tenure is that continuity and experience are considered to add significantly to the strength of the Board and, as such, no limit on the overall length of service of any of the Directors, including the Chairman, has been imposed.

Subject to the Articles, at each annual general meeting of the Company, all Directors will retire from office and each Director may offer himself for election or re-election by the Shareholders. A Director who retires at an annual general meeting may, if willing to continue to act, be elected or re-elected at that meeting. If he is elected or re-elected he is treated as continuing in office throughout. If he is not elected or re-elected, he shall remain in office until the end of the meeting or (if earlier) when a resolution is passed to appoint someone in his place.

By order of the Board

Kevin McGrath
Chairman
18 April 2016

Remuneration Report

Directors' Remuneration

The Directors shall be entitled to receive fees for their services, such sums not to exceed in aggregate £300,000 in any financial year (or such sum as the Company in general meeting shall from time to time determine).

The fees per annum of each of the Directors are as follows:

Director	Position	Annual Fee
Kevin McGrath	Chairman and Chairman of the Management Engagement & Remuneration Committee	£70,000
William Eason	Independent non-executive Director and Chairman of the Audit Committee	£50,000
Daniel Taylor	Independent non-executive Director	£50,000
Stephen Inglis	Non-executive Director	–
Martin McKay	Non-executive Director	–

William Eason receives no additional remuneration for acting in his role as Chairman of the Audit Committee.

Stephen Inglis received no remuneration from the Company due to his position as Chief Investment Officer and Group Property Director at the Asset Manager.

Martin McKay received no remuneration from the Company due to his position as Chief Financial Officer of the Investment Manager.

The Directors may be paid all reasonable travel, hotel and other out of pocket expenses properly incurred by them in attending Board or committee meetings or general meetings, and all reasonable expenses properly incurred by them seeking independent professional advice on any matter that concerns them in the furtherance of their duties as a Director.

In deciding the level of remuneration, the Directors considered the level of fees paid in the industry generally and took into account the expected time commitment and responsibilities of each Director.

Additional Remuneration

No Director is entitled to receive any pension contribution or any other non-statutory benefits.

The Group has not established any long term incentive plan or share option scheme. No element of the Directors' remuneration is related to performance.

Payment for Loss of Office

No payment has been made to any former Director for loss of office.

Remuneration Consultants

The Group did not engage the services of an external remuneration consultant during the period under review. The Board will consider the engagement of remuneration consultants in the future if it is thought appropriate or desirable to do so.

Total Director Remuneration

During the period 6 November to 31 December 2015, the following amounts were paid to the Directors as fees for their services:

Director	Fees paid to 31 December 2015
Kevin McGrath	£17,500
William Eason	£12,500
Daniel Taylor	£12,500
Stephen Inglis	–
Martin McKay	–
Aggregate:	£42,500

The Chairman and the independent non-executive Directors were each paid a fee from 1 October 2015 to 31 December 2015. This covers a period prior to Admission of the Company's Shares to trading and this reflects work undertaken by them in preparation for the listing.

Remuneration of the Asset Manager and Investment Manager

The fees payable to the Asset Manager and the Investment Manager are detailed in note 7 to the Accounts. Details of the contractual relationship between the Company and both managers is set out in the Report of the Directors.

By order of the Board

Kevin McGrath
Chairman
18 April 2016

Independent Auditors Report

We have audited the group and the parent company financial statements (the "financial statements") of Regional REIT Limited for the period ended 31 December 2015 on pages 54 to 89. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Section 262 of The Companies (Guernsey) Law 2008. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As more fully explained in the Directors' Responsibilities Statement set out on page 41 the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at http://www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2015 and of the group's profit and the parent company's loss for the period then ended;
- are in accordance with IFRSs as adopted by the European Union; and
- comply with the requirements of the Companies (Guernsey) Law 2008 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Directors' assessment of the principal risks that would threaten the solvency or liquidity of the entity

We have nothing material to add or to draw attention to in relation to:

- the Directors' confirmation in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, 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' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements, and
- the Director's explanation in the Annual Report as to how they have assessed the prospects of the entity, 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 entity 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.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the International Standards on Auditing (UK and Ireland) we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed.

Under the Companies (Guernsey) Law 2008 we are required to report to you if, in our opinion:

- proper accounting records have not been kept by the parent company, or:
- the parent company financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations which, to the best of our knowledge and belief are necessary for the purpose of our audit;

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 37, in relation to going concern and longer term viability; and
- the part of the Corporate Governance Statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Our assessment of risks of material misstatement

The risks set out below should be read in conjunction with the significant risk issues considered by the Audit Committee on page 48 and the significant accounting policies disclosed in note 4 to the Financial Statements. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on those matters.

In arriving at our audit opinion on the financial statements as set out above, the risks of material misstatements that had the greatest impact on our audit were as follows:

Valuation of investment properties held by the group
Risk of material misstatement – The accounting policy in respect of investment properties is to hold them at fair value in the financial statements, and to recognise the movement in the value in the accounting period in the Income Statement. The Directors' assessment of the value of investment properties both on acquisition, and at the period end date, is considered a significant audit risk due to the magnitude of the total amount, the potential impact of the movement in value on the reported results, and the subjectivity of the valuation process.

Audit approach adopted – We reviewed the independent valuation of investment properties to ensure they had been prepared on a consistent basis for all properties and are considered to be appropriate and correctly recorded in the financial statements in line with Accounting Standards.

We reviewed the inputs provided by the asset manager to the valuer and ensured these reflected the correct inputs for each property.

We considered market data for a sample of properties and ensured this was consistent with the valuation report.

We discussed significant movements with the property manager and the valuer and challenged where appropriate.

First time adoption of IFRS
Risk of material misstatement – the group is reporting for the first time since admission to listing and has therefore formulated new accounting policies. There is significant judgement involved in the selection of appropriate accounting policies, and a risk of error in their implementation on the first occasion. In particular we identified acquisition accounting when the group was formed, the valuation of investment properties, and fair value accounting.

Audit approach adopted – we reviewed the appropriateness of management's proposed accounting policies by reference to the accounting framework, and their implementation of the policies selected, together with the additional disclosures made on the accounting basis adopted as set out in note 3.2.2 to the financial statements.

In respect of the acquisition accounting this resulted in significant challenge and discussion with the investment and asset managers to ascertain the exact nature of the transaction and to satisfy ourselves that the transaction did fall within the requirements of IFRS 3. Our work entailed detailed discussions with the asset and investment managers in order to ascertain and obtain the required support for the methodology adopted.

Our application of materiality

When establishing our overall audit strategy we set certain thresholds which help us to determine the extent of our audit testing, designed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

At the audit planning stage we determined a magnitude of uncorrected misstatements that we judge would be material for the financial statements as a whole (FSM). During planning FSM was calculated as £3.8 million which was not changed during the course of the audit. This figure was calculated by reference to the total for gross assets of which it represents 0.9%.

We report to the Audit Committee all unadjusted misstatements in excess of £75,000 as well as misstatements below those thresholds that in our view warranted reporting on qualitative grounds.

An overview of the scope of our audit

Our audit scope covered 100% of group revenue, group profit and total group assets, and was performed to the materiality levels set out above.

For and on behalf of RSM UK Audit LLP, Auditor
Chartered Accountants
25 Farringdon Street
London
EC4A 4AB

18 April 2016

Financial Statements

Statement of Comprehensive Income

For the period from 22 June 2015 to 31 December 2015

Regional REIT Limited was incorporated on 22 June 2015 but did not begin trading until 6 November 2015 when an acquisition was completed and the shares were admitted to trading on the Premium segment of the London Stock Exchange.

	Notes	Group 22 June 2015 to 31 December 2015 £	Company 22 June 2015 to 31 December 2015 £
Continuing Operations			
Revenue			
Rental income	5	5,361,420	–
Non recoverable property costs	6	(753,607)	–
Net rental income		**4,607,813**	**–**
Administrative and other expenses	7	(1,353,183)	(699,866)
Operating profit/(loss) before gains and losses on property assets & other investments		**3,254,630**	**(699,866)**
Gain on the disposal of investment properties	15	86,865	–
Change in fair value of investment properties	15	23,784,070	–
Operating profit/(loss) before exceptional items		**27,125,565**	**(699,866)**
Exceptional items	9	(5,296,368)	(5,296,368)
Operating profit/(loss) after exceptional items		**21,829,197**	**(5,996,234)**
Finance income	10	176,648	5,150,000
Finance expense	11	(996,710)	–
Net movement in fair value of derivative financial instruments	25	114,888	–
Profit/(loss) before tax		**21,124,023**	**(846,234)**
Income tax expense	12	–	–
Profit/(loss) for the period after tax (attributable to equity shareholders)		**21,124,023**	**(846,234)**
Other comprehensive income		**–**	**–**
Total comprehensive income/(loss) for the period		**21,124,023**	**(846,234)**
Attributable to:			
– Owners of the parent		21,124,023	(846,234)
– Non-controlling interests		–	**–**
		21,124,023	**(846,234)**
The total comprehensive income arises from continuing operations			
Earnings/(losses) per share (pps) attributable to owners of the parent – basic and diluted	13	**7.7p**	**(0.3)p**
EPRA earnings/(losses) per share (pps) attributable to owners of the parent – basic and diluted	13	**(1.1)p**	**(0.3)p**

The notes on pages 58 to 89 are an integral part of these consolidated financial statements.

Statement of Financial Position

As at 31 December 2015

Regional REIT Limited was incorporated on 22 June 2015 but did not begin trading until 6 November 2015 when an acquisition was completed and the shares were admitted to trading on the Premium segment of the London Stock Exchange.

	Notes	Group 31 December 2015 £	Company 31 December 2015 £
Assets			
Non-current assets			
Investment properties	15	403,702,500	–
Investment in subsidiaries	16	–	274,217,264
Goodwill	17	2,785,758	–
Non current receivable	18	1,004,000	–
		407,492,258	274,217,264
Current assets			
Trade and other receivables	19	11,848,352	3,333
Cash and cash equivalents	20	23,954,492	18,362
		35,802,844	21,695
Total assets		443,295,102	274,238,959
Liabilities			
Current liabilities			
Trade and other payables	21	(12,575,818)	(867,929)
Deferred income	22	(5,906,387)	–
Taxation	23	(2,387,388)	–
Bank and loan borrowings – current	24	(200,000)	–
Derivative financial instruments	25	(415,527)	–
		(21,485,120)	(867,929)
Non-current liabilities			
Bank and loan borrowings – non current	24	(126,468,695)	–
		(126,468,695)	–
Total liabilities		**(147,953,815)**	**(867,929)**
Net assets		**295,341,287**	**273,371,030**
Equity			
Share capital	28	–	–
Share premium	28	274,217,264	274,217,264
Retained earnings/(accumulated losses)		21,124,023	(846,234)
Total equity		**295,341,287**	**273,371,030**
Net assets per share (pps)	29	**107.7p**	**99.7p**
EPRA net assets per share (pps)	29	**107.8p**	**99.7p**

The financial statements on pages 54 to 89 were authorised for issue by the Board of Directors on 18 April 2016 and were signed on its behalf by:

Kevin McGrath
Chairman
18 April 2016

The notes on pages 58 to 89 are an integral part of these consolidated financial statements.

Statement of Changes in Equity

For the period from 22 June 2015 to 31 December 2015

Regional REIT Limited was incorporated on 22 June 2015 but did not begin trading until 6 November 2015 when an acquisition was completed and the shares were admitted to trading on the Premium segment of the London Stock Exchange.

	Attributable to owners of the parent			
Group	**Share capital £**	**Share premium £**	**Retained Earnings £**	**Total £**
Balance at 22 June 2015	–	–	–	–
Issue of Shares at no par value	–	274,217,264	–	274,217,264
Total transactions with owners, recognised directly in equity	–	274,217,264	–	274,217,264
Total comprehensive income	–	–	21,124,023	21,124,023
Balance at 31 December 2015	–	274,217,264	21,124,023	295,341,287

Company	**Share capital £**	**Share premium £**	**Accumulated Losses £**	**Total £**
Balance at 22 June 2015	–	–	–	–
Issue of Shares at no par value	–	274,217,264	–	274,217,264
Total transactions with owners, recognised directly in equity	–	274,217,264	–	274,217,264
Total comprehensive loss	–	–	(846,234)	(846,234)
Balance at 31 December 2015	–	274,217,264	(846,234)	273,371,030

The issued share capital consists of 274,217,264 Ordinary shares issued at a premium of 100 pence each. These shares have no par value.

The notes on pages 58 to 89 are an integral part of these consolidated financial statements.

Statement of Cash Flows

For the period from 22 June 2015 to 31 December 2015

Regional REIT Limited was incorporated on 22 June 2015 but did not begin trading until 6 November 2015 when an acquisition was completed and the shares were admitted to trading on the Premium segment of the London Stock Exchange.

	Group 22 June 2015 to 31 December 2015 £	Company 22 June 2015 to 31 December 2015 £
Cash flows from operating activities		
Profit/(loss) for the period before taxation	21,124,023	(846,234)
– Change in fair value of investment properties	(23,784,070)	–
– Change in fair value of financial derivative instruments	(114,888)	–
– Profit on disposal of investment properties	(86,865)	–
Finance income	(176,648)	–
Finance expense	996,710	–
Increase in trade and other receivables	(5,358,066)	(3,333)
Increase in VAT and other taxes payable	359,679	–
Increase in trade, other payables & deferred income	4,807,715	867,929
Cash (used in)/generated from operations	**(2,232,410)**	**18,362**
Financial income	246,875	–
Finance costs	(670,746)	–
Net cash flow (used in)/generated from operating activities	**(2,656,281)**	**18,362**
Investing activities		
Purchase of investment properties	(4,190,680)	–
Sale of investment properties	5,347,520	–
Interest received	12,530	–
Acquisition of subsidiaries, net of cash acquired – Note 16	26,658,785	–
Net cash flow from investing activities	**27,828,155**	**–**
Financing activities		
Bank borrowings repaid	(1,217,382)	–
Net cash flow (used in) financing activities	**(1,217,382)**	**–**
Net increase in cash and cash equivalents for the period	23,954,492	18,362
Cash and cash equivalents at the start of the period	–	–
Cash and cash equivalents at the end of the period	**23,954,492**	**18,362**

The notes on pages 58 to 89 are an integral part of these consolidated financial statements.

Notes to the Financial Statements

For the period from 22 June 2015 to 31 December 2015

Regional REIT Limited was incorporated on 22 June 2015 but did not begin trading until 6 November 2015 when an acquisition was completed and the shares were admitted to trading on the Premium segment of the London Stock Exchange.

1. Corporate information

The consolidated financial statements of the Group for the period from 22 June 2015 to 31 December 2015 comprise the results of the Company and its subsidiaries (together constituting "the Group") and were approved by the Board and authorised for issue on 18 April 2016. Regional REIT Limited ("the Company") is a company limited by shares incorporated in Guernsey under The Companies (Guernsey) Law, 2008, as amended. The Company's Ordinary Shares are admitted to the Official List of the UK Listing Authority ("UKLA"), a division of the Financial Conduct Authority ("FCA"), and traded on the London Stock Exchange ("LSE").

Regional REIT Limited was incorporated on 22 June 2015 and is registered with the Guernsey Financial Services Commission as a Registered Closed-ended Collective Investment Scheme pursuant to The Protection of Investors (Bailiwick of Guernsey) Law, 1987, as amended, and the RCIS Rules.

Regional REIT Limited did not begin trading until 6 November 2015 when the shares were admitted to trading on the London Stock Exchange.

The nature of the Group's operations and its principal activities are set out in the Chairman's Statement on pages 5 to 7.

The address of the registered office is: Mont Crevelt House Bulwer Avenue St. Sampson Guernsey, GY2 4LH.

2. Basis of preparation

The Group consolidated and Company financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and IFRS Interpretation Committee ("IFRIC") as issued by the IASB and as adopted by the European Union ("EU"), in accordance with Article 4 of the IAS Regulations and Guernsey Company Law.

The Group's financial statements have been prepared on a historical cost basis, as modified for the Group's investment properties and certain financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

These are the Group's first financial statement since incorporation. Consequently, there are no comparatives for a previous period.

2.1. Functional and presentation currency

The consolidated financial statements are presented in Pounds Sterling, which is also the Group's functional currency, and all values are rounded to the nearest pound, except where otherwise indicated.

2.2. Going concern

The Directors have carefully reviewed areas of potential financial risk and have reviewed cash flow forecasts. No material uncertainties have been detected which would influence the Group or the Company's ability to continue as a going concern for a period of not less than 12 months. The Directors have satisfied themselves that the Group and the Company have adequate financial resources to continue in operational existence for the foreseeable future.

Accordingly, the Board of Directors considers that it is appropriate to prepare the Group and Company financial statements on a going concern basis.

2.3. Business combinations

The Group acquires subsidiaries that own investment properties. At the time of acquisition, the Group considers whether each acquisition represents the acquisition of a business or the acquisition of an asset. The Group accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property.

Where such acquisitions are not judged to be the 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 upon their relative fair values at the acquisition date. Accordingly, no goodwill or additional deferred tax arises.

Notes to the Financial Statements *(continued)*

For the period from 22 June 2015 to 31 December 2015

2. Basis of preparation *(continued)*

2.4. New standards and interpretations

These are the first financial statements presented by the Group and, therefore, all relevant standards have been adopted with immediate effect.

2.5. New standards, amendments and interpretations effective after 1 January 2016 and have not been early adopted by the Group

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these financial statements. These are:

IFRS 9, 'Financial Instruments', effective for annual periods beginning on or after 1 January 2018 addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2018.

IFRS 15, 'Revenue from contracts with customers', is effective for accounting periods beginning on or after 1 January 2018. IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contracts
- Recognise revenue when (or as) the entity satisfies a performance obligation

The Group has yet to assess IFRS 15's full impact and intends to adopt IFRS 15 no later than the accounting period beginning on or after 1 January 2018.

3. Significant accounting judgements, estimates and assumptions

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

3.1. Critical accounting estimates and assumptions

The principal estimates that may be material to the carrying amount of assets and liabilities are as follows:

3.1.1. Valuation of investment property

The fair value of investment property which has a carrying value of £403,702,500 at the reporting date is determined, by independent property valuation experts to be the estimated amount for which a property should exchange on the date of the valuation in an arm's length transaction. Properties have been valued on an individual basis. The valuation experts use recognised valuation techniques applying the principles of both IAS 40 and IFRS 13.

The valuations have been prepared in accordance with the Royal Institution of Chartered Surveyors ("RICS") Valuation – Professional Standards January 2014 ("the Red Book"). Factors reflected include current market conditions, annual rentals, lease lengths and location. The significant methods and assumptions used by valuers in estimating the fair value of investment property are set out in note 15.

Notes to the Financial Statements *(continued)*

For the period from 22 June 2015 to 31 December 2015

3. Significant accounting judgements, estimates and assumptions *(continued)*

3.1.2. Fair valuation of interest rate derivatives

In accordance with IAS 39, the Group values its interest rate derivatives at fair value. The fair values are estimated by the loan counterparty with revaluation occurring on a quarterly basis. The counter parties will use a number of assumptions in determining the fair values including estimations over future interest rates and therefore future cash flows. The fair value represents the net present value of the difference between the cash flows produced by the contracted rate and the valuation rate. The carrying value of the derivatives at the reporting date was £415,527.

3.1.3. Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 4.5. The recoverable amounts of cash generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. The carrying value of the goodwill at the reporting date was £2,785,758.

3.2. Critical judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements.

3.2.1. Operating lease contracts – the Group as lessor

The Group has acquired investment properties that are subject to commercial property leases with tenants. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, particularly the duration of the lease terms and minimum lease payments, that it retains all of the significant risks and rewards of ownership of these properties and so accounts for the leases as operating leases.

3.2.2. Application of acquisition accounting to the transaction which took place on 6 November 2015.

The Directors have considered the accounting treatment of the acquisition on 6 November 2015 by Regional REIT Limited, and its subsidiary Regional Commercial MidCo Limited ("MidCo") of the issued share capital of 75 special purpose vehicles (SPVs) and the application of IFRS 3, 'Business Combinations', and IFRS 10, 'Consolidated Financial Statements'.

Taking these reporting standards into consideration the Directors have concluded that the consolidated financial statements should be prepared on the acquisition accounting basis. In the consolidated accounts, all the assets and liabilities of the Group are shown as analysed on a line by line basis with the activities of the subsidiaries being consolidated from the acquisition date of 6 November 2015. A description of the transaction is outlined below:

- The general partners of the four Limited Partnership Funds (Tosca Commercial Property Fund LP, Tosca Commercial II, Tosca UK Commercial Property II LP and TUKCLP Jersey LP) transferred their assets to MidCo, a Jersey incorporated and tax resident company, (see note 16 for a breakdown of assets transferred). In consideration for the transfer, MidCo issued 274,217,260 ordinary shares at a price of 100 pence each to the general partners of the Funds, in proportion to their respective interests in the assets (the "First Issue") per share. The General Partners of the Funds already held one share each in the capital of MidCo which, together with the shares issued pursuant to the First Issue, comprise the "MidCo Shares".
- After completion of the First Issue, the General Partners of the Funds transferred the MidCo Shares to the Company. In consideration for such transfer, the Company issued 274,217,260 Ordinary Shares ("the Consideration Shares") to the general partners of the Funds, in proportion to their respective interests in the MidCo Shares (the "Second Issue").
- Upon completion of the Second Issue, each of the Funds was terminated in accordance with the terms of their respective limited partnership agreements. Upon such termination, the General Partners of the Funds (as liquidating trustees) distributed the Consideration Shares to the investors in the Funds, in proportion to such investors' respective interests in the assets of those Funds.
- Immediately after and conditional upon completion of the Second Issue, the Asset Management Agreement and the Investment Management Agreement took effect in accordance with their terms.

The reason for the adoption of acquisition accounting was that the four Limited Partnership funds referred to above were previously under the control of Toscafund Asset Management LLP ("Toscafund") but control was relinquished on the listing of the Company's shares when the roles previously undertaken by Toscafund came to an end. Toscafund's control arose by virtue of its equity holdings, its role as general partner, and its contractual rights and obligations.

Notes to the Financial Statements *(continued)*

For the period from 22 June 2015 to 31 December 2015

3. Significant accounting judgements, estimates and assumptions *(continued)*

3.3. Consolidation of entities in which the Group holds less than 50%

Management considers the Group has de facto control of Credential Investment Holdings Limited, and its 27 subsidiaries (the 'Credential Sub Group') by virtue of the Amended and restated Call Option Agreement dated 3 November 2015. Under this option the Group may acquire any of the properties held by the Credential Group for a nominal consideration. Despite having no equity holding the Group controls the Credential Group as the option agreement means that the Group is exposed to, and has rights to, variable returns from its involvement with the Credential Group through its power to control. The Credential Sub group has a deficiency of shareholders' funds and for this reason the non-controlling interest in the Group's results for the year and in the net assets of the Group are nil. There is no recourse to the non-controlling interest.

4. Summary of significant accounting policies

4.1. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries, as at the date of the Statement of Financial Position.

4.2. Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets and liabilities acquired and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to Other Comprehensive Income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

For acquisitions of subsidiaries not meeting the definition of a business, the Group allocates the cost between the individual identifiable assets and liabilities in the Group based on their relative fair values at the date of acquisition. Such transactions or events do not give rise to goodwill.

Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated in full. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Groups accounting policies.

The excess of the consideration transferred, and the amount of any non-controlling interest in the acquiree over the fair value of the identifiable net assets acquired is recognised as goodwill.

At Company level, the investments in subsidiary companies are included in the Statement of Financial Position at cost less impairment.

Notes to the Financial Statements *(continued)*

For the period from 22 June 2015 to 31 December 2015

4. Summary of significant accounting policies *(continued)*

4.2.1. Disposal of subsidiaries

When the Group ceases to have control over an entity any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

4.3. Segmental information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined that its chief operating decision-maker is the Asset Manager, London & Scottish Investments Limited.

4.4. Investment property

Investment property comprises freehold or leasehold property that is held to earn rentals or for capital appreciation, or both, rather than for sale in the ordinary course of business or for use in production or administrative functions.

Investment property is recognised, usually on legal completion, when the risks and rewards of ownership have been transferred and is measured initially at cost including transaction costs. Transaction costs include transfer taxes, professional fees for legal services and other costs incurred in order to bring the property to the condition necessary for it to be capable of being utilised in the manner intended. Subsequent to initial recognition, investment property is stated at fair value. Gains or losses arising from changes in the fair values are included in the Group Statement of Comprehensive Income in the period in which they arise under IAS 40, 'Investment Property'.

Additions to investment property include costs of a capital nature only. Expenditure is classified as capital when it results in identifiable future economic benefits, which are expected to accrue to the Group. All other property expenditure is charged in the Group Statement of Comprehensive Income as incurred.

Investment properties cease to be recognised when they have been disposed of or withdrawn permanently from use and no future economic benefit is expected. The difference between the net disposal proceeds and the carrying amount of the asset would result in either gains or losses at the retirement or disposal of investment property. Any gains or losses are recognised in the Group's Statement of Comprehensive Income in the period of retirement or disposal.

4.5. Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in the fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest of the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the subsidiaries, or groups of subsidiaries, that is expected to benefit from the synergies of the combination. Each subsidiary or group of subsidiaries, to which the goodwill is allocated, represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

4.6. Derivative financial instruments

Derivative financial instruments, comprising interest rate caps and swaps for hedging purposes, are initially recognised at fair value at acquisition and are subsequently measured at fair value being the estimated amount that the Group would receive or pay to terminate the agreement at the period end date, taking into account current interest rate expectations and the current credit rating of the lender and its counterparties. The gain or loss at each fair value remeasurement date is recognised in the Group's Statement of Comprehensive Income. Premiums payable under such arrangements are initially capitalised into the Group's Statement of Financial Position, subsequently they are remeasured and held at their fair values.

Notes to the Financial Statements *(continued)*

For the period from 22 June 2015 to 31 December 2015

4. Summary of significant accounting policies *(continued)*

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs significant to the fair value measurement as a whole.

4.7. Financial assets

The Group classifies its financial assets at initial recognition either as at fair value through profit or loss or loans and receivables. The Group has no available for sale financial assets or assets at fair value through profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinate payments that are not quoted in an active market. They are included in current assets, except for maturities of greater than twelve months from the end of the reporting period.

The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents'.

4.8. Trade and other receivables

Trade and other receivables are recognised initially at fair value, being carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost using the effective interest method. A provision for impairment is made when there is objective evidence that the Group will not be able to recover balances in full. Balances are written-off when identified. Lease premiums and other lease incentives provided to tenants are recognised as an asset and amortised over the period from date of lease commencement to termination date.

4.9. Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at banks with original maturities of three months or less. Cash also includes amounts held in restricted accounts that are unavailable for everyday use.

4.10. Trade payables

Trade payables are initially recognised at their fair value; being at their invoiced value inclusive of any VAT that may be applicable. Payables are subsequently measured at amortised cost using the effective interest method.

4.11. Bank and other borrowings

All bank and other borrowings are initially recognised at cost net of attributable transaction costs. Any attributable transaction costs relating to the issue of the bank borrowings are amortised through the Group Statement of Comprehensive Income over the life of the debt instrument on a straight-line basis. After initial recognition, all bank and other borrowings are measured at amortised cost, using the effective interest method.

4.12. Dividends payable to Shareholders

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the Shareholders at an annual general meeting.

4.13. Rental income

Rental income arising from operating leases on investment property is accounted for on a straight–line basis over the lease terms and is included in gross rental income in the Group's Statement of Comprehensive Income. Initial direct costs incurred in negotiating and arranging an operating lease are recognised as an expense over the lease term on the same basis as the lease income.

For leases which contain fixed or minimum uplifts, the rental income arising from such uplifts is recognised on a straight–line basis over the lease term.

Tenant lease incentives are recognised as a reduction of rental revenue on a straight-line basis over the term of the lease. 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.

Surrender premiums received from tenants to terminate leases or surrender premises are recognised in the Group's Statement of Comprehensive Income when the right to receive them arises.

When the Group is acting as an agent, the commission, rather than gross income, is recorded as revenue.

Notes to the Financial Statements *(continued)*

For the period from 22 June 2015 to 31 December 2015

4. Summary of significant accounting policies *(continued)*

4.14. Non recoverable property costs – service and management charges

Service and management charges are recognised in the accounting period in which the services are rendered.

4.15. Exceptional items

Exceptional items are those items of an income or expense of a non-recurring nature which are shown separately in the Consolidated Statement of Comprehensive Income by virtue of their nature, size or incidence.

4.16. Interest income

Interest income is recognised as interest accrues on cash balances held by the Group. Interest charged to a tenant on any overdue rental income is also recognised within interest income.

4.17. Dividend income

Dividend income is recognised when the right to receive payment is established.

4.18. Finance costs

Any finance costs that are separately identifiable and directly attributable to the acquisition or construction of an asset that takes a period of time to complete are capitalised as part of the cost of the asset. All other finance costs are expensed in the period in which they occur. Finance costs consist of interest and other costs that an entity incurs in connection with bank and other borrowings.

4.19. Taxation

As Regional REIT Limited is managed and controlled in the UK, it is considered to be tax resident in the UK.

The tax currently payable is based on the taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current and deferred tax is calculated using tax rates that have been enacted or substantively enacted at the Statement of Financial Position date.

The Group elected to be treated as a UK REIT with effect from 7 November 2015. The UK REIT rules exempt the profits of the Group's UK property rental business from corporation tax. Gains on UK properties are also exempt from tax, provided that they are not held for trading or sold in the three years after completion of development. The Group is otherwise subject to UK Corporation Tax.

4.20. Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates that are expected to apply in the period when the liability is settled or the asset is realised. A deferred tax asset is recognised only to the extent that it is probable that future profits will be available for offset.

Reductions in UK Corporation tax have been enacted, reducing the rate to 19% with effect from 1 April 2017 and 18% with effect from 1 April 2020. It has further been announced, but not yet enacted that the rate will be reduced to 17% from 1 April 2020.

4.21. Share capital

Ordinary shares are classed as equity.

4.22. Share based payments

The Group has entered into performance fee arrangements with the Asset Manager and the Investment Manager which depend on the growth in the net asset value of the Group exceeding a hurdle rate of return over a period of time. The fee will be partly settled in cash and partly in equity, and the equity portion is therefore a cash settled share-based payment arrangement. The fair value of the obligation is measured at each reporting, and the cost recognised as an expense. The part of the obligation to be settled in shares is credited to equity.

Notes to the Financial Statements *(continued)*

For the period from 22 June 2015 to 31 December 2015

5. Rental income

	Group 22 June 2015 to 31 December 2015 £	Company 22 June 2015 to 31 December 2015 £
Rental Income – freehold property	4,500,266	–
Rental Income – long term leasehold property	861,154	–
Gross rental income	5,361,420	–

6. Non recoverable property costs

	Group 22 June 2015 to 31 December 2015 £	Company 22 June 2015 to 31 December 2015 £
Property insurance expense	37,599	–
Other property expenses and irrecoverable costs	716,008	–
Non recoverable property costs	753,607	–

7. Administrative and other expenses

	Group 22 June 2015 to 31 December 2015 £	Company 22 June 2015 to 31 December 2015 £
Investment management fees	263,542	218,104
Property management fees	202,979	–
Asset management fees	231,727	–
Directors' remuneration (see below)	48,365	48,365
Administration fees	118,341	33,726
Legal & professional fees	389,641	288,372
Marketing & promotion	14,940	14,940
Other administrative costs	82,164	96,299
Bank charges	1,484	60
Total	1,353,183	699,866

The number of persons employed by the Group and Company in the period was 5, being the Directors, whose remuneration is set out in note 8.

Notes to the Financial Statements *(continued)*

For the period from 22 June 2015 to 31 December 2015

7. Administrative and other expenses *(continued)*

Services provided by the Company's auditor and its associates

The Group has obtained the following services from the Company's auditor and its associates:

	Group 22 June 2015 to 31 December 2015 £
Fee for the audit of the consolidated and parent company financial statements	86,500
Fees payable to the Company's auditor and its associates for other services	
Fee for the audit of the subsidiaries for their respective periods of account ended 31 December 2015	105,500
Corporate finance services in connection with the flotation	250,255
Tax compliance services provided to subsidiaries	69,000
Total	511,255

8. Key management compensation

	Group 22 June 2015 to 31 December 2015 £	Company 22 June 2015 to 31 December 2015 £
Directors' fees	42,500	42,500
Employers National Insurance	5,865	5,865
	48,365	48,365

Key management comprises the Directors of the Company. The Directors were paid a full quarter's fee, from 1 October 2015, because they were involved in the listing process of the Company.

A summary of the Directors' emoluments is set out in the Directors' Remuneration Report on page 50.

9. Exceptional items

Exceptional items are those items which are of a non-recurring nature and, in the judgement of the Directors, need to be disclosed separately by virtue of their nature, size or incidence.

Exceptional items comprise the professional fees and regulatory costs associated with the acquisition and the listing of the shares on the London Stock Exchange.

Notes to the Financial Statements *(continued)*

For the period from 22 June 2015 to 31 December 2015

10. Finance income

	Group 22 June 2015 to 31 December 2015 £	Company 22 June 2015 to 31 December 2015 £
Group dividend income	–	5,150,000
Interest income	12,530	–
Other finance income	99,243	–
Unwinding of discount on financial asset	64,875	–
Total finance income	176,648	5,150,000

11. Finance expense

	Group 22 June 2015 to 31 December 2015 £	Company 22 June 2015 to 31 December 2015 £
Interest payable on bank borrowings	910,039	–
Amortisation of loan arrangement fees	86,671	–
	996,710	–

12. Income tax expense

Income tax expense in the Statement of Comprehensive Income

	Group 22 June 2015 to 31 December 2015 £	Company 22 June 2015 to 31 December 2015 £
Income tax expense	–	–

The current tax is reduced by the Real Estate Invetment Trust (REIT) exemptions.

The tax charge for the period can be reconciled to the profit/(loss) in the Statement of Comprehensive Income as follows:

	Group	Company
Profit/(loss) before taxation	21,124,023	(846,234)
UK Corporation tax rate for the period	20%	20%
Theoretical tax at UK Corporation tax rate	4,224,804	(169,247)
Effects of:		
Revaluation gain on investment properties, not taxable	(4,756,814)	–
Profits from the tax exempt business	(359,049)	–
Permanent differences	1,023,273	169,247
Utilisation of losses brought forward	(132,214)	–
Tax charge	–	–

Reductions in the rate of UK Corporation Tax have been enacted, reducing the rate to 19% with effect from 1 April 2017 and 18% with effect from 1 April 2020. It has been further announced, but not yet enacted, that the rate will be reduced to 17% from 1 April 2020. Deferred tax has been measured in accordance with the enacted rates expected to apply to the period of reversal of temporary differences.

Notes to the Financial Statements *(continued)*

For the period from 22 June 2015 to 31 December 2015

13. Earnings/(losses) per share

Earnings/(losses) per share (EPS) amounts are calculated by dividing profit/(losses) for the period attributable to ordinary equity holders of the Company by the weighted average number of Ordinary Shares in issue during the period. As there are no dilutive instruments outstanding, basic and diluted earnings/(losses) per share are identical.

The calculation of basic and diluted earnings per share is based on the following:

Group	**Net profit attributable to Ordinary Shareholders before exceptional items £**	**Net profit attributable to Ordinary Shareholders after exceptional items £**	**Weighted average number of Ordinary Shares' Number**	**Earnings/(losses) per share before exceptional items**	**Earnings/(losses) per share after exceptional items**
For the period from 22 June 2015 to 31 December 2015					
Net profit attributable to Ordinary Shareholders	21,124,023	21,124,023			
add back Exceptional items	5,296,368	–			
Basic and diluted earnings per share	26,420,391	21,124,023	274,217,264	9.6p	7.7p
Adjustment to remove					
Changes in value of investment properties	(23,784,070)	(23,784,070)	–	–	–
Changes in fair value of interest rate derivatives and financial asset	(179,763)	(179,763)	–	–	–
Profit on disposal of investment property	(86,865)	(86,865)	–	–	–
EPRA basic and diluted earnings/(losses) per share	2,369,693	(2,926,675)	274,217,264	0.9p	(1.1)p
Company					
For the period from 22 June 2015 to 31 December 2015					
Net loss attributable to Ordinary Shareholders	(846,234)	(846,234)			
add back Exceptional items	5,296,368	–			
Profit before Exceptional items	4,450,134	(846,234)			
Basic and diluted losses per share	4,450,134	(846,234)	274,217,264	1.6p	(0.3)p

As described in note 9, there was an exceptional item for £5,296,368 during the period.

The earnings per share figures before the exceptional items are as follows:

	Group	**Company**
Earnings/(losses) per share (pps) attributable to owners of the parent – basic and diluted before exceptional item	9.6p	1.6p
EPRA earnings/(losses) per share (pps) attributable to owners of the parent – basic and diluted before exceptional item	0.9p	1.6p

As described in note 9, there was an exceptional item for £5,296,368 during the period.

Notes to the Financial Statements *(continued)*

For the period from 22 June 2015 to 31 December 2015

14. Dividends paid after the reporting date

	Group 31 December 2015 £	**Company 31 December 2015 £**
Dividend of 1 pence per 274,217,264 Ordinary shares		
Total dividends	2,742,173	2,742,173
Total dividends per share	1.0p	1.0p

The dividend was declared on 7 March 2016 and was paid on 15 April 2016. These financial statements do not reflect this dividend.

15. Investment properties

In accordance with International Accounting Standard, IAS 40, 'Investment Property', investment property has been independently valued at fair value by Cushman & Wakefield, Chartered Surveyors, an accredited independent valuer with a recognised and relevant professional qualification and with recent experience in the locations and categories of the investment properties being valued. The valuations have been prepared in accordance with the RICS Valuation – Professional Standards (January 2014) ("the Red Book") and incorporate the recommendations of the International Valuation Standards Committee which are consistent with the principles set out in IFRS 13.

The valuations are the ultimate responsibility of the Directors. Accordingly, the critical assumptions used in establishing the independent valuation are reviewed by the Board.

All corporate acquisitions during the period have been treated as business combinations because they are considered to be acquisitions of businesses, rather than properties purchased.

Group only

	Freehold Property £	**Long Leasehold Property £**	**Total £**
On acquisition of subsidiaries	319,540,681	61,447,724	380,988,405
Property additions	1,020,242	3,170,438	4,190,680
Property disposals	(5,347,520)	–	(5,347,520)
Gain on the disposal of investment properties	86,865	–	86,865
Change in fair value during the period	16,752,232	7,031,838	23,784,070
As at 31 December 2015	332,052,500	71,650,000	403,702,500

The valuation summary is set out on pages 10 to 29 of the Asset and Investment Manager's Report.

The historic cost of the properties was £349,535,000.

Notes to the Financial Statements *(continued)*

For the period from 22 June 2015 to 31 December 2015

15. Investment properties *(continued)*

Fair value hierarchy

The following table provides the fair value measurement hierarchy for investment property:

	Date of valuation	Total £	Quoted active prices (level 1) £	Significant observable inputs (level 2) £	Significant unobservable inputs (level 3) £
Assets measured at fair value:					
Investment properties	31 December 2015	403,702,500	–	403,702,500	–

There have been no transfers between levels during the period.

The determination of the fair value of the investment properties held by each consolidated subsidiary requires the use of estimates such as future cash flows from assets (such as 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. Future revenue streams comprise contracted rent (passing rent) and estimated rental value ("ERV") after the contract period. In calculating ERV, the potential impact of future lease incentives to be granted to secure new contracts is taken into consideration. All these estimates are based on local market conditions existing at the reporting date.

Volatility in the global financial system is reflected in commercial real estate markets. In arriving at their estimates of market values as at 31 December 2015, valuers used their market knowledge and professional judgement and did not rely solely on historical transactional comparables. In these circumstances, there was a greater degree of uncertainty in estimating the market values of investments than would exist in a more active market.

Techniques used for valuing investment properties
The following descriptions and definitions relate to valuation techniques and key unobservable inputs made in determining the fair values:-

Valuation technique: market comparable method
Under the market comparable method (or market approach), a property fair value is estimated based on comparable transactions in the market.

Observable Input: Passing rent
The rent at which space could be let in the market conditions prevailing at the date of valuation (range: £1- £1,350,000 per annum)

Observable Input: Rental growth
The estimated average increase in rent is based on both market estimations and contractual agreements.

Observable Input: 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 (range: 1.84%- 23.05%)

Sensitivities of measurement if significant observable inputs
As set out within significant accounting estimates and judgement above, the Group's property portfolio valuation is open to judgement and is inherently subjective by nature, and actual values can only be determined in a sales transaction.

Notes to the Financial Statements *(continued)*

For the period from 22 June 2015 to 31 December 2015

15. Investment property *(continued)*

As a result, the following sensitivity analysis has been prepared:

	Net rent		**Nominal equivalent yield**	
	-5%	**+5%**	**-5%**	**+5%**
Variation in input measures	**£**	**£**	**£**	**£**
Effect on income statement	(1,663,929)	1,663,929	(13,739,000)	14,056,000

A reconciliation of the valuation carried out by the external valuers to the carrying amount in the Statement of Financial Position is as follows:

	Group 31 December 2015 £	**Company 31 December 2015 £**
As set out in Cushman & Wakefield's valuation report	405,422,500	–
Adjustment in respect of Blythswood House disposal post year end	(1,720,000)	–
As shown in the Statement Financial Position	403,702,500	–

The adjustment reflects a value determined in a sales transaction shortly after the period end.

16. Investment in subsidiaries

Company only

	31 December 2015 £
As at 22 June 2015	–
Acquisition of subsidiaries during the period	274,217,264
As at 31 December 2015	274,217,264

Investment in subsidiaries is recorded at cost, which is the fair value of the consideration paid.

16.1. Subsidiary companies

List of subsidiaries that are 100% owned and controlled by the Group	Country of incorporation	Ownership %
Tosca Rosalind Ltd	Jersey	100%
Tosca Chandlers Ford Limited	Jersey	100%
Tosca Churchill Way Limited	Jersey	100%
Tosca Faraday Close Limited	Jersey	100%
Tosca Garnet Limited	Jersey	100%
Tosca Midlands Limited	Jersey	100%
Tosca North East Limited	Jersey	100%
Tosca North West Limited	Jersey	100%
Tosca Scotland Limited	Jersey	100%

Notes to the Financial Statements *(continued)*

For the period from 22 June 2015 to 31 December 2015

16. Investment in subsidiaries *(continued)*

16.1. Subsidiary companies *(continued)*

List of subsidiaries that are 100% owned and controlled by the Group	Country of incorporation	Ownership %
Tosca South East Limited	Jersey	100%
Tosca South West Limited	Jersey	100%
Tosca Swansea Limited	Jersey	100%
Tosca Thorpe Park Limited	Jersey	100%
Tosca Victory House Limited	Jersey	100%
Tosca Winsford Limited	Jersey	100%
Toscafund Blythswood Ltd	Jersey	100%
Toscafund Chancellor Court Ltd	Jersey	100%
Toscafund Milburn House Ltd	Jersey	100%
Toscafund Minton Place Limited	Jersey	100%
Toscafund Sheldon Court Limited	Jersey	100%
Toscafund St James Court Limited	Jersey	100%
Toscafund Westminster House Limited	Jersey	100%
Toscafund Portland Street Ltd	Jersey	100%
Toscafund Bishopgate Street Limited	Jersey	100%
Toscafund Wallington Limited	Jersey	100%
Toscafund Bennett House Limited	Jersey	100%
Toscafund Brand Street Limited	Jersey	100%
Toscafund Crompton Way Limited	Jersey	100%
Toscafund Espedair Limited	Jersey	100%
Toscafund Harvest Limited	Jersey	100%
Toscafund St Georges House Limited	Jersey	100%
Toscafund Newstead Court Limited	Jersey	100%
Toscafund Fairfax House Limited	Jersey	100%
Toscafund South Gyle Limited	Jersey	100%
Toscafund North Esplanade Limited	Jersey	100%
Toscafund Welton Road Limited	Jersey	100%
Tay Properties Ltd	Jersey	100%
Blythswood House LLP	United Kingdom	100%
Toscafund Hareness Road Ltd	Jersey	100%
TCP Channel Limited	Jersey	100%
TCP Arbos Limited	Jersey	100%
TCPF FinCo Limited	Jersey	100%
Tosca UK CP II Limited	Jersey	100%
Tosca UK CP Limited	Jersey	100%
Tosca UKCP II FinCo Limited	Jersey	100%
Regional Commercial MIDCO Limited	Jersey	100%
Toscafund Glasgow Limited	Jersey	100%
Tosca Glasgow II Limited	United Kingdom	100%

All the above subsidiaries were acquired on 6 November 2015.

All the above entities have been included in the Group financial statements from 6 November 2015.

Notes to the Financial Statements *(continued)*

For the period from 22 June 2015 to 31 December 2015

16. Investment in subsidiaries *(continued)*

16.1. Subsidiary companies *(continued)*

In the opinion of the Directors the value of the subsidiary undertakings is not less than the book amount.

By virtue of the Amended and restated Call Option Agreement, dated 3 November 2015, the Directors consider that the Group has de facto control of Credential Investment Holdings Limited, and its 27 subsidiaries.

Under this option the Group may acquire any of the properties held by the Credential Group for a nominal consideration. Despite having no equity holding the Group controls the Credential Group as the option agreement means that the Group is exposed to, and has rights to, variable returns from its involvement with the Credential Group through its power to control.

The list of these subsidiaries is as per below:

List of subsidiaries that are 100% controlled by the Group – The Credential sub-Group	Country of incorporation	De facto control %
Squeeze Newco 2 Limited	United Kingdom	100%
Credential Tay House Limited	United Kingdom	100%
The Legal Services Centre Limited	United Kingdom	100%
Dumbarton Road Limited	United Kingdom	100%
Old Rutherglen Road Limited	United Kingdom	100%
Credential (Peterborough) Limited	United Kingdom	100%
Hamiltonhill Estates Limited	United Kingdom	100%
Douglas Shelf Seven Limited	United Kingdom	100%
Credential Charing Cross Limited	United Kingdom	100%
Credential Bath Street Limited	United Kingdom	100%
Credential Muirhouse Limited	United Kingdom	100%
Credential Estates Limited	United Kingdom	100%
Old Mill Studios Limited	United Kingdom	100%
Credential SHOP Limited	United Kingdom	100%
Credential (Greenock) Limited	United Kingdom	100%
Credential (Baillieston) Limited	United Kingdom	100%
Credential (Wardpark North) Limited	United Kingdom	100%
Credential (Wardpark South) Limited	United Kingdom	100%
Squeeze Newco (Elmbank) Limited	United Kingdom	100%
Caststop Limited	United Kingdom	100%
Stock Residential Lettings Limited	United Kingdom	100%
Credential Residential Finance Limited	United Kingdom	100%
Lilybank Terrace Limited	United Kingdom	100%
Lilybank Church Limited	United Kingdom	100%
Rocket Unit Trust	Jersey	100%
London & Scottish Property Management Limited	United Kingdom	100%
Castlestream Limited	United Kingdom	100%

All the above subsidiaries were deemed to have been acquired on 6 November 2015.

All the above entities have been included in the Group financial statements from 6 November 2015.

In the opinion of the Directors the value of the subsidiary undertakings is not less than the book amount.

The above subsidiaries have been consolidated at 100% by the Group.

Notes to the Financial Statements *(continued)*

For the period from 22 June 2015 to 31 December 2015

16. Investment in subsidiaries *(continued)*

16.2. Business combination

On 6 November 2015 the company acquired Regional Commercial MidCo Limited for £274,217,264, which included 100% of the issued share capital of 47 special purpose vehicles. On the same day, one of the subsidiaries, Toscafund Glasgow Limited, acquired control of Credential Investment Holdings Limited and its 26 subsidiaries, by virtue of a Call Option Agreement dated 3 November 2015.

The reason for the acquisition was to obtain a listing which will offer shareholders a public market for the shares and increase the strategic flexibility of the Group. The goodwill of £2,785,758 arising from the acquisition is attributable to the cost saving synergies available to the enlarged group, particularly access to lower borrowing rates. The fair value of trade and other receivables is £2,991,486, including £1,195,959 for trade receivables. The gross contractual amount of trade receivables as at 31 December 2015 is £1,423,731 of which £227,772 is expected to be uncollectable.

The following table summarises the consideration paid for the acquisition, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date.

Consideration at 6 November 2015	**£**
Ordinary shares issued	274,217,264
Total consideration transferred	274,217,264
Recognised amounts of identifiable assets aquired and liabilities assumed	
Investment property	380,988,405
Trade receivables	1,195,959
Other receivables	1,795,527
Financial asset – within one year	745,000
Financial asset – after one year	1,197,000
Prepayments & accrued income	2,742,801
Cash at bank	26,658,785
Unamortised debt issue costs	1,962,120
Trade payables	(2,473,976)
Other payables	(4,073,815)
Current taxation	(2,387,388)
VAT, PAYE & NI	(817,599)
Accruals & deferred income	(5,710,129)
Borrowings	(129,860,769)
Interest rate derivatives	(530,415)
	271,431,506
Goodwill on acquisition	2,785,758
Non-controlling interest	–
Total	274,217,264

The contributions made by the subsidiaries were £27,190,214 in the profit after tax and net assets of the Group since acquisition. It is not practicable to provide a theoretical result as though the acquisition had been made on 22 June 2015. Any costs related to the acquisitions have been charged to exceptional items in the Statement of Comprehensive Income on page 54. The fair value of the 274,217,264 shares issued as consideration was 100 pence each, being the placing price of the initial public offering.

Notes to the Financial Statements *(continued)*

For the period from 22 June 2015 to 31 December 2015

16. Investment in subsidiaries *(continued)*

16.3. Credential subgroup

The fair value of the non-controlling interest in Credential Investment Holdings Limited is nil because of the net liabilities as shown below.

Summarised financial information of Credential subgroup:

Credential Statement of Comprehensive income for the period from 6 November 2015 to 31 December 2015	**31 December 2015 £**
Revenue	
Rental income	1,122,384
Non recoverable property costs	(136,326)
Net rental income	986,058
Administrative and other expenses	21,407
Operating profit before gains and losses on property assets & other investments	1,007,465
Loss on the disposal of investment properties	(3,700)
Change in fair value of investment properties	7,893,065
Operating profit	8,896,830
Finance income	4,198
Finance expense	(877,805)
Profit after finance item	8,023,223
Taxation	–
Profit for the period after taxation	8,023,223
Other comprehensive income	–
Attributable to the Regional REIT Ltd Group	(8,023,223)
Total comprehensive income/(loss) (attributable to equity shareholders)	–

Notes to the Financial Statements *(continued)*

For the period from 22 June 2015 to 31 December 2015

16. Investment in subsidiaries *(continued)*

16.3. Credential subgroup *(continued)*

The Statement of Financial Position of the Credential subgroup was as follows:

	31 December 2015 £
Non current asset	
Investment properties	78,532,500
	78,532,500
Current Assets	
Trade receivable	1,269,768
Other receivables	319,171
Prepayments	876,757
Bank	1,148,406
	3,614,102
Total assets	82,146,602
Liabilities	
Current liabilities	
Trade payables	(369,271)
Other payables	(978,094)
Value Added Tax	(443,686)
Accruals & deferred income	(16,232,148)
Loans from Regional REIT Group	(109,872,758)
Taxation	(611,749)
Total liabilities	**(128,507,706)**
Net liabilities	**(46,361,104)**
Equity	
Called up share capital	5,724,036
Capital redemption reserve	4,301,029
Goodwill	140,916
Other reserves	6,167,614
Accumulated losses	(62,694,699)
Net liabilities	(46,361,104)

Notes to the Financial Statements *(continued)*

For the period from 22 June 2015 to 31 December 2015

17. Goodwill

	Group 31 December 2015 £	Company 31 December 2015 £
At 6 November 2015 and 31 December 2015	2,785,758	–

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured at fair value is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value. Any impairment is recognised immediately as an expense and is not subsequently reversed. The impairment review is based on pretax-tax cash flow projections of cost savings to the Group as a whole as a single cash generating unit, using a discount rate of 3% of cost savings using a discount rate of 3%.

18. Non-current receivables

Group only

	Group 31 December 2015 £
On acquisition	1,942,000
Movement in period	(246,875)
Unwinding of discount	64,875
Balance at 31 December 2015	**1,760,000**
Asset due within 1 year	756,000
Asset due after 1 year	1,004,000
	1,760,000

In May 2014, the tenant of one of the subsidiaries (Blythswood House) surrendered their lease resulting in a lease surrender premium to be paid by the tenant in equal instalments over 4 years. The amount due was recognised initially at fair value and subsequently recorded at amortised cost using the effective interest method. The unwinding of the discount is included in finance income.

Notes to the Financial Statements *(continued)*

For the period from 22 June 2015 to 31 December 2015

19. Trade and other receivables

	Group 31 December 2015 £	Company 31 December 2015 £
Gross amount receivable from tenants	3,246,121	–
Less provision for impairment	(227,772)	–
Net amount receivable from tenants	3,018,349	–
Current portion of receivables (note 18)	756,000	
Other receivables	5,257,441	–
Prepayments	2,816,562	3,333
	11,848,352	3,333

At 31 December 2015, the aged analysis of tenant invoice receivables was as follows:

	Group 31 December 2015 £
Current	1,484,732
< 30 days	570,502
30 - 60 days	550,418
> 60 days	640,469
	3,246,121
Provision for impairment	(227,772)
	3,018,349

The Directors consider the fair value of receivables equals their carrying amount. As at 31 December 2015, trade receivables of £3,018,349 were past due but not impaired. These relate to tenants for whom there is no recent history of default. The age analysis of these trade receivables is as follows:

Period	Group £
3 - 6 months	222,772
Over 6 months	–

Notes to the Financial Statements *(continued)*

For the period from 22 June 2015 to 31 December 2015

19. Trade and other receivables *(continued)*

Movements on the Group's provision for impairment of trade receivables are as follows:

	Group 22 June 2015 to 31 December 2015 £
Acquired with subsidiaries	227,772
Provision for impairment in the period	–
Receivables written off as uncollectable	–
Unused provision reversed	–
As at 31 December 2015	227,772

The other categories within trade and other receivables do not include impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying value of the amounts disclosed above. The Group does not hold any collateral as security.

20. Cash and cash equivalents

	Group 31 December 2015 £	**Company 31 December 2015 £**
Cash held at bank	15,154,445	18,362
Restricted cash	8,800,047	–
	23,954,492	18,362

Restricted cash balances of the Group comprise:

- £6,348,568 of funds held in blocked bank accounts which are controlled by one of the Group's lenders and are released to free cash once certain loan conditions are met. The restricted funds arose on net proceeds from investment property disposals and were released after the year end, before 31 March 2016.
- £2,171,439 of funds which represent service charge income received from tenants for settlement of future service charge expenditure.
- £280,040 of funds which represent tenants' rental deposits.

The restricted cash was available before 31 March 2016.

Notes to the Financial Statements *(continued)*

For the period from 22 June 2015 to 31 December 2015

21. Trade and other payables

	Group 31 December 2015 £	**Company 31 December 2015 £**
Trade payables	2,513,046	–
Other payables	5,095,340	–
Value Added Tax	1,091,798	–
Accruals	3,875,634	867,929
	12,575,818	867,929

22. Deferred income

Deferred rental income is rent received in advance from tenants.

23. Taxation liabilities

	Group 31 December 2015 £
Income tax	
Balance at acquisition and at 31 December 2015	2,387,388

The taxation liabilities of £2,387,388 represent payables at the date of the acquisitions by the Group on 6 November 2015.

24. Bank and loan borrowings

The Group acquired bank debt of £130m when it entered into the business combination described in note 16. All available debt facilities are fully drawn at the reporting date and there are no committed but undrawn facilities. The weighted average term to maturity of the Group's debt as at the period end was 3.4 years.

Bank borrowings are secured by charges over individual investment properties held by certain asset-holding subsidiaries. The banks also hold charges over the shares of certain subsidiaries and any intermediary holding companies of those subsidiaries. Any associated fees in arranging the bank borrowings unamortised as at the period end are offset against amounts drawn on the facilities as shown in the table below:

Group Only	**31 December 2015 £**
Bank borrowings drawn	128,643,387
Less: unamortised costs	(1,875,449)
Less: adjustment through finance income	(99,243)
	126,668,695
Maturity of bank borrowings	
Repayable within 1 year	200,000
Repayable between 1 and 2 years	200,000
Repayable between 2 and 5 years	126,268,695
	126,468,695
	126,668,695

Notes to the Financial Statements *(continued)*

For the period from 22 June 2015 to 31 December 2015

24. Bank and loan borrowings *(continued)*

All of the Group's five borrowing facilities contain options for extension. There were four facilities with an extension option of one year and the fifth facility has extension option of two years (split into two, one year extensions). The extension options require the agreement of both the Group and counterparty bank in order to be exercised. Details of the individual facilities can be found in the Asset and Investment Managers' Report.

Four of the Group's facilities have an interest charge which is payable quarterly based on a margin above 3 month LIBOR. The fifth facility carries a fixed rate of interest. The weighted average interest rate payable by the Group on its debt portfolio as at the period end was 4.1%.

The Group has been in compliance with all of the financial covenants of the above facilities as applicable throughout the period covered by these financial statements.

As shown in note 25, the Group uses a combination of interest rate swaps and fixed rate bearing loans to hedge against interest rate risks. Its exposure to volatility is virtually nil.

25. Derivative financial instruments

To mitigate the interest rate risk that arises as a result of entering into variable rate borrowings, the Group entered into a number of interest rate caps, swaps and swaptions during the period. The weighted average cap, swap and swaption rate for the Group as at the period end was 4.4%, with a Group weighted average effective interest rate of 4.5% inclusive of hedging costs.

	Group 31 December 2015 £
On acquisition	(530,415)
Revaluation in period	114,888
Total	(415,527)

Further, the Group has entered into the following interest rate caps, swaps and swaptions.

Lender	**Original Facility**	**Outstanding Debt**	**Maturity Date**	**LTV**	**Interest Cost per annum**	**Amortisation**	**Hedging and Swaps: Notional Amounts/Rates**
Santander UK	35,000,000	31,605,902	01/12/2018	29.2%	2.7% over 3mth LIBOR	Mandatory Prepayment basis	£11m/1.867%
Santander UK	13,500,000	9,587,485	01/12/2018	17.7%	2.7% over 3mth LIBOR	Mandatory Prepayment basis	£4.65m/2.246%
Royal Bank of Scotland	15,600,000	15,600,000	01/06/2019	29.7%	2.75% over 3mth LIBOR	None	£14.04m/1.79%
ICG Longbow Ltd	65,000,000	65,000,000	01/08/2019	48.9%	5% pa for term	None	n/a
Santander UK	7,000,000	6,850,000	01/02/2018	46.2%	2% over 3mth LIBOR	£50,000 per qtr	£5.48m/1.444%
	136,100,000	128,643,387					

The interest rate derivatives were acquired from the subsidiaries at acquisition and are marked to market by the relevant counterparty banks on a quarterly basis in accordance with IAS 39, 'Financial Instruments; Recognition and Measurement'. Any movement in the mark to market values of the derivatives are taken to the Group's Statement of Comprehensive Income.

The maximum exposure to credit risk at the reporting date is the fair value of the derivative liabilities.

Notes to the Financial Statements *(continued)*

For the period from 22 June 2015 to 31 December 2015

25. Derivative financial instruments *(continued)*

It is the Group's target to hedge at least 90% of the total debt portfolio using interest rate derivatives. As at the period end date the total proportion of hedged debt equated to 90%, as shown below.

	Group 31 December 2015 £
Total bank borrowings	128,643,387
Notional value of Interest rate derivatives (for variable rate loans)	50,825,000
Value of fixed rate debts	65,000,000
	115,825,000
Proportion of hedged debt	90.1%

25.1. Fair value hierarchy

The following table provides the fair value measurement hierarchy for interest rate derivatives:

The different levels are defined as follows:

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation at the end of each reporting period.

Group only

	Date of valuation	Total £	Quoted prices in active markets (level 1) £	Significant observable input (level 2) £	Significant unobservable input (level 3) £
Assets measured at fair value:					
Interest rate derivatives at 31 December 2015		(415,527)	–	(415,527)	

The fair value of these contracts are recorded in the Group Statement of Financial Position and is determined by forming an expectation that interest rates will exceed strike rates and discounting these future cash flows at the prevailing market rates as at the period end.

There have been no transfers between levels during the period.

There were no interest rate risk derivative instruments at Company level.

The Group has not adopted hedge accounting.

Notes to the Financial Statements *(continued)*

For the period from 22 June 2015 to 31 December 2015

26. Financial risk management

26.1. Financial instruments

The Group's principal financial assets and liabilities are those that arise directly from its operations: trade and other receivables, trade and other payables and cash and cash equivalents. The Group's other principal financial liabilities are bank and other loan borrowings, the main purpose of which is to finance the acquisition and development of the Group's investment property portfolio.

Set out below is a comparison by class of the carrying amounts and fair value of the Group's financial instruments that are carried in the financial statements:

	Group 31 December 2015		Company 31 December 2015	
	Book value £	Fair Value £	Book value £	Fair Value £
Financial assets				
Trade and other receivables	10,035,790	10,035,790	–	–
Cash and short-term deposits	23,954,492	23,954,492	18,362	18,362
Financial liabilities				
Trade and other payables	(18,897,732)	(18,897,732)	(867,929)	(867,929)
Bank and loan borrowings	(126,668,695)	(126,668,695)	–	–

All financial assets and liabilities are classified as 'loans and receivables' except for interest rate derivatives which are described as 'at fair value through profit or loss'.

26.2. Risk management

The Group is exposed to market risk (including interest rate risk), credit risk and liquidity risk. The Board of Directors oversees the management of these risks. The Board of Directors reviews and agrees policies for managing each of these risks that are summarised below.

26.3. Market risk

Market risk is the risk that the fair values of financial instruments will fluctuate because of changes in market prices. The financial instruments held by the Group that are affected by market risk are principally the Group's bank balances along with a number of interest rate swaps entered into to mitigate interest rate risk.

The Group's interest rate risk arises from long term borrowings issued at variable rates, which expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The Group manages its cash flow interest rate risk by using floating to fixed interest rate swaps, interest rate caps and interest rate swaptions. Interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Interest rate caps limit the exposure to a known level.

26.4. Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from both its leasing activities and financing activities, including deposits with banks and financial institutions. Credit risk is mitigated by tenants being required to pay rentals in advance under their lease obligations. The credit quality of the tenant is assessed based on an extensive credit rating scorecard at the time of entering into a lease agreement.

Outstanding trade receivables are regularly monitored. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial asset.

Notes to the Financial Statements *(continued)*

For the period from 22 June 2015 to 31 December 2015

26. Financial risk management *(continued)*

26.5. Credit risk related to trade receivables

Trade receivables, primarily tenant rentals, are presented in the balance sheet net of provisions for impairment. Credit risk is primarily managed by requiring tenants to pay rentals in advance and performing tests around strength of covenant prior to acquisition. Any trade receivables past due as at the period end were received shortly after the period end.

26.6. Credit risk related to financial instruments and cash deposits

One of the principal credit risks of the Group arises with the banks and financial institutions. The Board of Directors believes that the credit risk on short-term deposits and current account cash balances are limited because the counterparties are banks, who are committed lenders to the Group, with high credit ratings assigned by international credit-rating agencies.

The list of bankers for the Group, with their Fitch credit ratings, was as follows:

Bankers	Fitch Ratings
Barclays	Baa3
Royal Bank of Scotland	Ba1
Satander UK	A

26.7. Liquidity risk

Liquidity risk arises from the Group's management of working capital and, going forward, the finance charges and principal repayments on its borrowings. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due, as the majority of the Group's assets are investment properties and are therefore not readily realisable. The Group's objective is to ensure it has sufficient available funds for its operations and to fund its capital expenditure. This is achieved by continuous monitoring of forecast and actual cash flows by management.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

Group	Within 1 year £	Between 2 to 5 years £	After 5 years £	Total £
31 December 2015				
Bank borrowings	(200,000)	(126,468,695)	–	(126,668,695)
Trade and other payables	(18,897,732)	–	–	(18,897,732)
	(19,097,732)	(126,468,695)	–	(145,566,427)

Company	Within 1 year £	Between 2 to 5 years £	After 5 years £	Total £
31 December 2015				
Trade and other payables	(867,929)	–	–	(867,929)

Derivative instrument interest rate swaps and caps with a negative fair value are included within the less than one year category.

Notes to the Financial Statements *(continued)*

For the period from 22 June 2015 to 31 December 2015

27. Capital management

The primary objective of the Group's capital management is to ensure that it remains a going concern and continues to qualify for UK REIT status.

The Board, with the assistance of the Investment Manager, monitors and reviews the Group's capital so as to promote the long-term success of the business, facilitate expansion and to maintain sustainable returns for Shareholders.

The Group's policy on borrowings is as follows:

- the level of borrowing will be on a prudent basis for the asset class, and will seek to achieve a low cost of funds, while maintaining flexibility in the underlying security requirements, and the structure of both the portfolio and of Regional REIT.

Based on current market conditions, the Board will target Group net borrowings of 35 per cent. of Gross Asset Value at any time. However, the Board may modify the Company's borrowing policy (including the level of gearing) from time to time in light of then current economic conditions, relative costs of debt and equity capital, fair value of the Company's assets, growth and acquisition opportunities or other factors the Board deems appropriate. The Group's net borrowings may not exceed 50 per cent of the Gross Asset Value at any time.

Debt will be secured at the asset level subject to the assessment of the optimal financing structure for the Group and having consideration to key metrics including lender diversity, debt type and maturity profile.

28. Share capital and Share premium

	31 December 2015 £
Company	
Issued and fully paid at £1 each	274,217,264
At 22 June 2015	1
Shares issued	274,217,263
At 31 December 2015	274,217,264

The Company was incorporated on 22 June 2015 and issued one ordinary share of no par value at a price of 100 pence to the sole subscriber.

On 16 October 2015 a further 3 ordinary shares of no par value were issued at a price of £1 each. The shares issued have the same rights as the subscriber share.

On 6 November 2016 the Company issued 274,217,260 ordinary shares of no par value to the general partners of four Limited Partnership Funds (Tosca Commercial Property Fund LP, Tosca Commercial II, Tosca UK Commercial Property II LP and TUKCLP Jersey LP) in consideration for their shares in Regional Commercial Midco Limited thereby acquiring a number of property owning special purpose vehicles as described more fully in note 16.

The fair value of the shares issued amounted to £274,217,260 and the shares issued have the same rights as the other shares in issue.

On 6 November 2015, the Group announced that its entire share capital of 274,217,264 Ordinary Shares had been admitted to the premium listing segment of the Official List of the UK Listing Authority and to trading on the main market for listed securities of the London Stock Exchange.

Notes to the Financial Statements *(continued)*

For the period from 22 June 2015 to 31 December 2015

29. Net asset value per share (NAV)

Basic NAV per share is calculated by dividing net assets in the Group's Statement of Financial Position attributable to ordinary equity holders of the parent by the number of Ordinary Shares outstanding at the end of the period. As there are no dilutive instruments issued, basic and diluted NAV per share are identical.

Net asset values have been calculated as follows:

	Group 31 December 2015 £	Company 31 December 2015 £
Net asset value per Statement of Financial Position	295,341,287	273,371,030
Adjustment for calculating EPRA net assets		
Derivative financial instruments	415,527	–
EPRA net assets	295,756,814	273,371,030
Issued share capital – number of ordinary shares	274,217,264	274,217,264
Basic and diluted net asset value per share	107.7p	99.7p
EPRA net asset per share	107.8p	99.7p

30. Operating leases

The future minimum lease payments under non–cancellable operating leases receivable by the Group in respect of its property portfolio for a range of terms from less than one year to 10 years are as follows:

	Within 1 year £	Between 2 to 5 years £	After 5 years £	Total £
Amount receivable	3,842,453	55,957,973	87,373,542	147,173,968
Total	3,842,453	55,957,973	87,373,542	147,173,968

31. Segment information

Information reported to the Asset Manager who is the chief operating decision maker for the purposes of resource allocation and assessment of segment performance is focused on the different revenue streams that exist within the Group. The Group's principal reportable segments under IFRS 8 are therefore as follows:

- Industrial
- Office
- Retail
- Residential

All revenues are earned in the United Kingdom with property and administrative expenses also incurred in the United Kingdom.

All of the Group's revenues are derived from external customers and there are no inter-segment revenues.

There were no tenants providing more than 10% of revenues.

Notes to the Financial Statements *(continued)*

For the period from 22 June 2015 to 31 December 2015

31. Segment information *(continued)*

	Industrial £	Office £	Retail £	Residential/ Student accommodation £	Unallocated assets & liabilities £	Total £
Investment properties	99,620,000	239,850,000	45,030,000	19,202,500	–	403,702,500
Goodwill					2,785,758	2,785,758
Other assets	–	–	–	–	35,046,845	35,046,845
Financial asset	–	–	–	–	1,760,000	1,760,000
Liabilities	–	–	–	–	(145,566,428)	(145,566,428)
Tax liabilities	–	–	–	–	(2,387,388)	(2,387,388)
Net assets/(liabilities)	99,620,000	239,850,000	45,030,000	19,202,500	(108,361,213)	295,341,287

	Industrial £	Office £	Retail £	Residential/ Student accommodation £	Unallocated assets & liabilities £	Total £
Rental income	1,354,133	3,227,687	621,826	157,774	–	5,361,420
Property expenses	(168,368)	(439,952)	(128,202)	(17,085)	–	(753,607)
Profit on disposal of investment properties	4,300	74,207	7,208	1,150	–	86,865
Investment property revaluations	4,208,427	18,724,818	796,790	54,035	–	23,784,070
Exceptional items	–	–	–	–	(5,296,368)	(5,296,368)
Other expenses	–	–	–	–	(1,353,183)	(1,353,183)
Profit before interest and taxation	5,398,492	21,586,760	1,297,622	195,874	(6,649,551)	21,829,197
Financial income						176,648
Net finance costs						(996,710)
Net movement in fair value of derivatives						114,888
Taxation						–
Total comprehensive income for the period						21,124,023

The measure of segment result is considered to be profit before interest and taxation.

Assets which have not been allocated to segments include cash, receivables and financial assets which are centrally managed.

Liabilities are only reviewed at group level and are not allocated to segments.

Notes to the Financial Statements *(continued)*

For the period from 22 June 2015 to 31 December 2015

32. Transactions with related parties

Transactions with the Asset Manager, London & Scottish Investments Limited and the Property Manager, London & Scottish Property Asset Management Limited.

Stephen Inglis is a Non-Executive Director of Regional REIT Limited, Stephen is also the Property Director and Chief Investment Officer of London & Scottish Investments Limited and a director of London and Scottish Property Asset Management Limited. The former company has been contracted to act as the Asset Manager of the Group and the latter as the Property Manager.

In consideration for the provision of services provided, the Asset Manager is entitled in each financial year (or part thereof) to 50% of an annual management fee on a scaled rate of 1.1% of EPRA net asset value (NAV), reducing to 0.9% on assets over £500,000,000. The fee shall be payable in cash quarterly in arrears. On any date upon which payment of the management fee is due.

In respect of each portfolio property, the Asset Manager has procured and shall, with the Company in future procure that London & Scottish Property Asset Management Limited is appointed as the property manager. A property management fee of 4 per cent. per annum is charged by the Property Manager on a quarterly basis, 31 March, 30 June, 30 September, and 31 December, based upon the gross rental yield. Gross rental yield means the rents due under the property's lease for the peaceful enjoyment of the property, including any value paid in respect of rental renunciations but excluding any sums paid in connection with service charges or insurance costs.

For the period ended 31 December 2015, the asset management fee charged in the Group's Statement of Comprehensive Income was £231,727 for the Group and £nil for the Company.

The property management fees charged at 31 December 2015 was £165,446 for the Group and £nil for the Company.

The asset management and property fees payable at 31 December 2015 were £231,727 and £165,446 respectively for the Group.

Transactions with the Investment Manager, Toscafund Asset Management LLP.

Martin McKay is a non-executive Director of Regional REIT Limited and is the Chief Financial Officer of Toscafund Asset Management LLP. The LLP is also the discretionary Investment Manager of Tosca Opportunity, Tosca Mid Cap and The Pegasus Fund Limited which own shares in Regional REIT Limited. Toscafund Asset Management LLP has been contracted as the Investment Manager of the Group.

In consideration for the provision of services provided, the Investment Manager is entitled in each financial year (or part thereof) to 50% of an annual management fee on a scaled rate of 1.1% of EPRA net asset value (NAV), reducing to 0.9% on assets over £500,000,000. The fee is payable in cash quarterly in arrears. On any date upon which payment of the management fee is due.

For the period ended 31 December 2015, the investment management fee charged in the Group's Statement of Comprehensive Income was £263,542 for the Group and £218,104 for the Company.

The investment management fees payable at 31 December 2015 was £263,542 for the Group and £218,104 for the Company.

In addition the Investment Manager and the Asset Manager are entitled to 50% of each of a performance fee at a rate of 15% of the amount by which the EPRA Net Asset Value exceeds a hurdle annual rate of return to shareholders of 8%, the fee to be calculated initially on 31 December 2018, and annually thereafter.

The fee for the first period to 31 December 2018 is payable as to 50% in cash, and 50% in Ordinary Shares, the shares to be issued at the prevailing price per ordinary share at the date of issue.

The fee for subsequent periods is payable as to 34% in cash and 66% in ordinary shares, again at the prevailing price per share.

Based on the EPRA net asset value of the group as at 31 December 2015 and assuming the hurdle annual rate of return is exceeded on average over the remainder of the period to 31 December 2018 the performance fee has been estimated at £95,000.

Notes to the Financial Statements *(continued)*

For the period from 22 June 2015 to 31 December 2015

33. Operating lease commitments

	Within 1 year £	Between 1-2 years £	Between 2-5 years £	After 5 years £
Operating lease commitments in respect of land & buildings at 31 December 2015 are:				
Annual commitments – leases expiring after more than 5 years	261,106	261,106	783,318	18,240,190

34. Capital commitments

On 30 December 2015, the Group announced it had exchanged contracts on a portfolio of four multi-let office buildings for a purchase price of £37.5m. The portfolio of multi-let offices is located in Basingstoke, Leeds, Leicester and Manchester with an industrial business park in Beverley. The portfolio totals c.703, 000 sq. ft., providing a net income of £3.4 million per annum, which equates to a yield of 8.25%.

35. Subsequent events

On 30 December 2015, the Group announced it had exchanged contracts on the Wing portfolio of four multi-let office buildings and a multi-let industrial estate for a purchase price of £37.5m. The portfolio is located in Basingstoke, Leeds, Leicester and Manchester and an industrial business park in Beverley and totals c. 703,000 sq. ft., providing a net income of £3.38 million per annum. This equates to a net initial yield of 8.5%. The deal completed on a phased basis, stage 1 being 22 January for the freehold assets with stage 2, the leasehold assets of Basingstoke and Beverley, completing on 22 March.

On 6 January 2016, the Group announced it had completed the acquisition of Rosalind House in Basingstoke for an acquisition price of £3m. The office building, 26,448 sq. ft. let until 2020, provides a net annual income of £396,000, equating to a net initial yield of 12.48%. Subsequently the Group agreed a lease surrender for a reverse premium of £888,000 and back-to-back letting following refurbishment to New Voice Media on a new 10 year lease at £394,755 per annum.

On 9 February 2016, the Group announced that it had exchanged contracts to buy the Rainbow Portfolio for £80.0m. The portfolio comprises 12 assets, five offices and seven industrial sites, totalling 1.15m sq. ft., which are geographically spread throughout the UK in major regional urban areas, including Bristol, Manchester, Cardiff, Sheffield and the West Midlands. Income from offices amounts to 55% of the portfolio; 86% of the income is from England. The portfolio produces a net yield of 8.2% at a capital rate of £70 per sq. ft. The deal completed on 9 March.

The acquisitions were financed by additional bank debt of £99.8m, secured on the assets of the Group, and at margins between 2% and 2.15%.

The Group also announced, on 9 February 2016, a number of disposals:

- Churchill Plaza, Basingstoke sold for £12m, the property having been acquired in August 2014 for £7.5m. The sale price represented a 52% increase on the June 2015 value and a 9% increase on the December 2015 valuation.
- Five retail assets sold for a total consideration of £4.8m, marginally ahead of the December 2015 valuation.
- An office building in Kirkcaldy has also been sold for £0.9m, 50% ahead of the June 2015 valuation and in line with the December 2015 valuation. An office building in Glasgow, 21 Blythswood Square, sold just before the December 2015 valuation for £1.5m, in line with valuation.

These disposals are consistent with the Group's policy of selling where real value has been created and to reduce risk, specifically realising development and retail properties where good value can be achieved.

On 6 April 2016, the Group announced the disposal of Blythswood House, Glasgow for £17.4 m, and of a standalone industrial unit at Spectrum Business Park, Wrexham for £4.1m.

Glossary

AIF – Alternative Investment Fund.

AIFM – Alternative Investment Fund Manager.

Break Option – A clause in a Lease which provides the landlord or tenant with an ability to terminate the Lease before its contractual expiry date.

Cost of Debt – Total cost of debt including the interest cost, arrangement fees and unamortised hedging cost.

EPRA – European Public Real Estate Association, the industry body for European REITs.

EPRA earnings – Profit after tax excluding revaluations and gains and losses on disposals and associated taxation (if any).

EPRA NAV per share – EPRA NAV divided by the diluted number of Shares in issue at the period end.

EPRA net assets (EPRA NAV) – IFRS assets excluding the mark to market on effective cash flow hedges and related debt instruments and deferred taxation revaluations.

Equivalent yield – Weighted average of the initial yield and reversionary yield, representing the return that a property will produce based on the occupancy data of the tenant leases.

Estimated Rental Value (ERV) – External valuers' opinion as to what is the open market rental value of the property is on the valuation date, and what could reasonably be expected to be the rent obtainable on a new letting on that property on the valuation date.

External Valuer – Independent external valuer of a property. The Group's External Valuer is Cushman & Wakefield.

Gross property assets/Gross asset value – Investment Properties encompasses the entire property portfolio of freehold and leasehold properties.

Gross rental income – Accounting based rental income under IFRS. When the Group provides incentives to its tenants the incentives are recognised over the lease term on a straight-line basis in accordance with IFRS. Gross rental income is therefore the cash passing rent as adjusted for the spreading of these incentives.

Initial Yield – Annualised rents of a property expressed as a percentage of the property's value.

IPO – Initial Public Offering.

Lease – A legally binding contract between a landlord and a tenant which sets out the basis on which the tenant is permitted to occupy a property, including the Lease length.

Lease Incentive – A payment used to encourage a tenant to take on a new Lease, for example by a landlord paying a tenant a sum of money to contribute to the cost of a tenant's fit-out of a property or by allowing a rent free period.

Lease Re-gear – Renegotiation of a Lease during the term and often linked to another Lease event, for example a Break Option or Rent Review.

Lease Renewal – Renegotiation of a Lease with the existing Tenant at its contractual expiry.

Lease Surrender – An agreement whereby the landlord and tenant bring a Lease to an end other than by contractual expiry or the exercise of a Break Option. This will frequently involve the negotiation of a surrender premium by one party to the other.

Loan to Value – Gross Borrowings/Value of Investment Properties

Manager – The Group's Asset (property) Manager is London & Scottish Investments Limited ("LSI") and its Investment Manager is Toscafund Asset Management LLP ("Toscafund").

Net Assets (or Shareholders' Funds) – Calculated as the value of the investments and other assets of an investment company, plus cash and debtors, less borrowings and any other creditors. It represents the underlying value of an Investment Company at a point in time.

Net Asset Value ('NAV') per Ordinary Share – Calculated as the net assets of a company divided by the number of Shares in issue, excluding those Shares held in treasury.

Net Gearing – Borrowings less cash and cash equivalents divided by the total value of issued share capital plus retained earnings

Net Initial Yield – Initial Net Income from a property at the date of purchase, expressed as a percentage of the gross purchase price including the cost of purchase.

Passing Rent – Rent payable on a property at any particular time.

Occupancy percentage – Percentage of the total area of all properties and units currently let to tenants.

Over rented – When the contracted rent is higher than the ERV.

Property Income Distributions (PIDs) – Dividends distributed by a REIT that are subject to taxation in the hands of the Shareholders. Normal withholding tax still applies in most cases.

REIT – Real Estate Investment Trust as set out under section 705 (e) of the Finance Act 2013.

Rent Review – Periodic review of rent during the term of a Lease, as provided for within a Lease agreement.

Reversion – Increase in rent estimated by a company's External Valuer, where the passing rent is below the ERV. The increases to rent arise on rent reviews and lettings.

Reversionary yield – Anticipated yield to which the initial yield will rise (or fall) once the rent reaches the ERV.

Voids – Vacant unlet space.

AIFMD Disclosure

The Alternative Investment Fund Managers' Directive ("AIFMD"), requires certain information to be made available to investors in Alternative Investment Funds ("AIFs") before they invest and requires that material changes to this information be disclosed in the annual report of each AIF. Those disclosures that are required to be made pre-investment are included within a Pre-Investor information Document which can be found on the Group's website at: www.regionalreit.com. There have been no material changes to the disclosures contained within the Pre-Investor information Document since its publication in the Prospectus in November 2015.

Management Agreement

With effect from 6 November 2015, the Company appointed London & Scottish Investments Limited ("LSI") as Asset Manager and Toscafund Asset Management LLP ("Toscafund" or "the AIFM") as Investment Manager. LSI and Toscafund receive an annual management fee on a scaled rate of 1.1 % of the European Public Real Estate Association ("EPRA") net asset value (NAV) up to £500 million and 0.9% above £500 million. A performance fee will also be paid to LSI and Toscafund.

The investment management agreement between the Company and Toscafund (the "Management Agreement") may be terminated by either party giving 12 months' written notice. No additional compensation is payable to the AIFM on the termination of this agreement other than the fees payable during the notice period.

Toscafund was authorised as an Alternative Investment Fund Manager ("AIFM"), by the UK's Financial Conduct Authority on 21 July 2014. The AIFM has implemented a remuneration policy ("the Policy"), which is effective as of 21 July 2014. The aggregate amount of remuneration in respect of the Company of senior management and members of staff of the AIFM whose actions have a material impact on the risk profile of the Regional REIT Limited during the period was £253,200.

Continuing appointment of the AIFM

The Board continually reviews the performance of the AIFM and LSI. The Board, through its Audit and Management Engagement and Remuneration Committees (the "Committees"), has considered the performance of the AIFM and the terms of its engagement. It is the opinion of the Board that the continuing appointment of the AIFM on the terms agreed is in the interests of Shareholders as a whole. This is because of the good performance of the Group and because the remuneration of the AIFM is fair both in absolute terms and compared to that of managers of similar investment companies. The Board believe that by calculating the management fee on the basis of EPRA NAV, the interests of the AIFM are closely aligned with those of the Shareholders.

Risk management by the AIFM

The AIFM has established and maintains a permanent and independent risk management function to ensure that there is a comprehensive and effective risk management policy in place and to monitor compliance with risk limits. The risk policy applicable to the Group covers the risks associated with the management of the investment portfolio and the AIFM reviews and approves the adequacy and effectiveness of the policy on at least an annual basis, including the risk management processes and controls and limits for each risk area. The AIFM sets risk limits that take into account the risk profile of the Group's investment portfolio, as well as its investment objectives and strategy. The AIFM monitors the risk limits, including leverage, and periodically assesses the portfolio's sensitivity to key risks. The AIFM reviews risk limit reports at regular meetings of its Risk Committee.

AIFMD Disclosure *(continued)*

Principal risks and uncertainties

The Board considers that the following are the principal risks associated with investing in the Group: investment risk, market risk, liquidity risk and credit risk. An explanation of these risks and how they are managed and the policy and practice with regards to financial instruments are contained in note 25 on pages 81 and 82 of the Financial Statements.

Leverage

Leverage is defined in the AIFMD as any method by which the Group increases its exposure, whether through borrowing of cash or securities, or leverage embedded in derivative positions or by any other means. The Group has entered into five separate banking facilities during the period, drawing on £128.6 million of debt. All available debt facilities have been fully drawn.

Leverage has been measured in terms of the Group's exposure, and is expressed as a ratio of net asset value. The AIFMD requires this ratio to be calculated in accordance with both the Gross Method and the Commitment Method. Details of these methods of calculation can be found by referring to the AIFMD. In summary, these methods express leverage as a ratio of the exposure of debt, non-sterling currency, equity or currency hedging and derivatives exposure against the net asset value. The principal difference between the two methods is that the Commitment Method enables derivative instruments to be netted off to reflect hedging arrangements and the exposure is effectively reduced, while the Gross Methods aggregates the exposure.

The AIFMD introduced a requirement for the AIFM to set maximum levels of leverage for the Group. The Company's AIFM has set a maximum limit of 200 for both the Gross and Commitment Methods of calculating leverage.

At 31 December 2015 this gives the following figures:

Leverage Exposure	Gross Method	Commitment Method
Maximum	200	200
Actual	144	144

In accordance with the AIFMD, any changes to the maximum level of leverage set by the Group will be communicated to the Shareholders.

Group Information

Directors
Kevin McGrath (Chairman)
William Eason (independent non-executive Director, Audit Committee Chairman)
Daniel Taylor (independent non-executive Director)
Stephen Inglis (non-executive Director)
Martin McKay (non-executive Director)

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Auditor
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Registrar
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The Registry
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(Calls cost 12p per minute plus your providers access charge. Calls outside the UK will be charged at applicable international rate. Lines are open between 09:00 – 17:30 Monday to Friday (excluding public holidays in England and Wales). For shareholder enquiries please email shareholderenquiries@capita.co.uk)

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