



F&C UK Real Estate Investments Limited

Annual Report and Consolidated Accounts

30 June 2014

Company Summary

The Company

The Company is an authorised closed-ended Guernsey-registered investment company and its shares have a premium listing on the Official List of the UK Listing Authority and are traded on the main market of the London Stock Exchange. The Company delisted from the Channel Islands Stock Exchange during the year.

The Company has a wholly owned subsidiary, F&C UK Real Estate Finance Limited which wholly owns IRP Holdings Limited and IPT Property Holdings Limited which hold and manage the investment properties. The report and accounts of the Company also consolidate the results of all its subsidiaries, which collectively are referred to throughout this document as 'the Group'.

At 30 June 2014 total assets less current liabilities were £307.3 million and shareholders' funds were £192.6 million.

Objective

The investment objective of the Company is to provide ordinary shareholders with an attractive level of income together with the potential for capital and income growth from investing in a diversified UK commercial property portfolio.

Investment Policy

The Company's investment policy is contained on page 5.

Management

The Board has appointed F&C Investment Business Limited as the Company's investment manager and F&C REIT Property Management Limited as the Company's property manager. Both of these companies are part of F&C Asset Management plc group and, collectively, are referred to in this document as 'the Manager'. Further details of the management contract are provided in Note 2 to the Accounts.

Capital Structure

The Company's equity capital structure consists of ordinary shares. Subject to the solvency test provided for in the Companies (Guernsey) Law, 2008 being satisfied, ordinary shareholders are entitled to all dividends declared by the Company and to all of the Company's assets greater than the value of the liabilities.

ISA

The Company's shares are eligible for Individual Savings Accounts ('ISAs').

Website

The Company's internet address is:
www.fcre.co.uk and www.fcre.gg

Contents

Company Summary	
Financial Highlights	1
Performance Summary	1
Strategic Report	
Chairman's Statement	2
Business Model and Strategy	5
Investment Manager	7
Manager's Review	8
Portfolio Statistics	12
Property Portfolio	14
Governance Report	
Board of Directors	15
Report of the Directors	16
Corporate Governance Statement	19
Report of the Audit Committee	21
Remuneration Report (unaudited) – Directors' Remuneration Policy	23
Remuneration Report (unaudited) – Annual Report on Directors' Remuneration	24
Directors' Responsibility Statement	25
Financial Report	
Independent Auditor's Report	26
Consolidated Statement of Comprehensive Income	29
Consolidated Balance Sheet	30
Consolidated Statement of Changes in Equity	31
Consolidated Cash Flow Statement	32
Notes to the Accounts	33
Notice of Annual General Meeting	51
Shareholder Information	53
Historic Record	53
Corporate Information	

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you are recommended to seek your own independent financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 (as amended) if you are in the United Kingdom or, if not, from another appropriately authorised financial adviser. If you have sold or otherwise transferred all your ordinary shares in F&C UK Real Estate Investments Limited, please forward this document together with the accompanying documents immediately to the purchaser or transferee, or to the stockbroker, bank or agent through whom the sale or transfer was effected for onward transmission to the purchaser or transferee.

Financial Highlights

- Share price total return of 23.2 per cent for the year
- Portfolio ungeared total return of 14.9 per cent for the year
- Net asset value per share total return of 23.9 per cent for the year
- Net asset value per share total return since launch of 77.2 per cent
- Dividend of 5.0 pence per share for the year

Performance Summary

	Year ended 30 June 2014	Year ended 30 June 2013	Cumulative since launch
Total Return			
Net asset value per share*	+23.9%	+3.9%	+77.2%
Ordinary share price*	+23.2%	+19.5%	+89.7%
Portfolio ungeared return	+14.9%	+4.0%	+97.5%
Investment Property Databank UK Quarterly Index	+16.7%	+4.8%	+79.8%
FTSE All-Share Index*	+13.1%	+17.9%	+132.6%
	30 June 2014	30 June 2013	% Change
Capital Values			
Total assets less current liabilities (£000's)	307,275	272,001	+13.0%
Net asset value per share	83.4p	71.7p	+16.3%
Ordinary share price	84.0p	72.5p	+15.9%
Investment Property Databank UK Quarterly Index	103.6	93.7	+10.6%
FTSE All-Share Index	3,600.2	3,289.7	+9.4%
Ordinary share price premium to net asset value per share	0.7%	1.1%	
Net gearing†	31.7%	39.7%	
	Year ended 30 June 2014	Year ended 30 June 2013	
Earnings and Dividends			
Earnings per ordinary share#	14.4p	1.2p	
Dividends paid per ordinary share§	5.0p	7.2p	
Dividend yield‡	6.0%	9.9%	
Ongoing Charges			
As a percentage of average net assets**	2.1%	2.6%	
As a percentage of average net assets (excluding direct property expenses)**	1.4%	2.0%	
	12 month Highs	12 month Lows	
Highs/Lows			
Net asset value per share	83.4p	71.7p	
Ordinary share price	85.0p	71.3p	
Premium/(discount)	15.4%	(0.6)%	

* Total return assuming gross dividends reinvested.

† (Bank debt less net current assets, excluding swap liability) ÷ investment properties.

Earnings per ordinary share include capital gains and losses on investment properties.

§ Calculated on an IFRS basis and therefore excludes the 4th interim dividend for 2013/14 and 2012/13.

‡ Calculated on annualised dividends of 5.0p per share for 2013/2014 and 7.2p for 2012/2013. An analysis of dividend payments is contained in note 6 on page 40.

** Ongoing charges which include direct operating property costs are defined within The Association of Investment Companies Guidelines. A second Ongoing

Charges figure is shown which excludes direct operating property costs as these are variable in nature.

Sources: F&C Investment Business, Investment Property Databank ('IPD') and Datastream.

Chairman's Statement



Quentin Spicer Chairman

With 15 months having passed since the Company completed the merger with ISIS Property Trust Limited, performance continues to be good and combined with the issue of a significant number of new Ordinary Shares during the year, has resulted in market capitalisation increasing from £151 million as at 30 June 2013 to £194 million as at 30 June 2014.

Share price performance has been strong during the year and the shares were trading at a premium to net asset value of 0.7 per cent at the year end, with the price at 84.0 pence per share. This represented a share price total return for the year of 23.2 per cent.

The net asset value ('NAV') total return for the year was 23.9 per cent with a NAV as at 30 June 2014 of 83.4 pence per share. The movement in the interest rate swap valuations had a positive impact on the NAV of £5.2 million during the year, which reduced the swap liability and increased the NAV per share by 2.4 pence. Future movements should reflect positively over time as the liability reduces to nil by the conclusion of the contract in January 2017.

Property Market and Portfolio

The UK commercial property market has seen positive returns across all sectors, resulting in an annual total return of 16.7 per cent for the year ended 30 June

2014, as measured by the Investment Property Databank ('IPD') Quarterly Funds Index. Although the economic backdrop has been supportive, with GDP consensus growth forecasts being revised higher, consumer sentiment improving and inflation remaining below 2 per cent; it may be that the improvement owes more to the weight of money coming into property. The UK property market remains attractive as a large, transparent, relatively liquid market.

At 30 June 2014 the portfolio was valued at £300.6 million, returning 14.9 per cent over the twelve months. The buoyancy of the property market assisted the Manager in continuing with the strategy of disposing smaller and non-performing assets which no longer fit the profile of the enlarged Group. The Manager was successful in selling five properties for a combined value of £16.05 million (excluding costs). The proceeds of these sales and the cash raised from share issues has created sufficient funds to facilitate the Company's purchase of two retail warehouses for a combined value of £18.05 million (excluding costs) and a further purchase of an office building completing post year end for £6.97 million.

The occupational market remains challenging, especially in the retail sector and this continues to have an effect on rental values and the number of vacancies in some locations. Despite new lettings during the year, the void rate on the portfolio has risen to 5.7 per cent although this has reduced since the year end following the sale of the property at Marlow. As a result of ongoing property management, the average unexpired lease length across the portfolio has been maintained at a creditable 7.8 years, compared with 7.9 years in June 2013.

Dividends

Three interim dividends of 1.25 pence per share were paid during the year and a fourth interim dividend of 1.25 pence per share was paid on 30 September 2014. This gives a total dividend for the year ended 30 June 2014 of 5.0 pence per share, a yield of 6.0 per cent on the year end share price. In the absence of unforeseen circumstances, it is the intention of the Group to continue to pay quarterly interim dividends at this rate.

The merged entity has benefited from a material reduction in the Total Expense Ratio with the ongoing charges as a percentage of average net assets at 2.1 per cent, well below the 2.6 per cent experienced in the previous year. This has helped the level of dividend cover which, even after property sales and an increased level of voids, was 89 per cent for the year ended 30 June 2014 compared to 74 per cent for the year ended 30 June 2013.

Borrowings

The net gearing level as at 30 June 2014 was 31.7 per cent, which compares with 39.7 per cent as at 30 June 2013 and 40.0 per cent at launch on 1 June 2004. The fall in the gearing percentage was due to a combination of the loan drawn down being reduced to £109.0 million from £112.0 million, an increase in the overall market value of the portfolio and proceeds from share issues and property sales being held in cash. The Group had £16.8 million of cash available at 30 June 2014 and an undrawn loan facility of £6 million. The Group retains a prudent attitude to gearing.

Alternative Investment Fund Managers' Directive ("AIFMD")

In July 2014, the Company entered into arrangements necessary to ensure compliance with the AIFMD. Following a review of the Company's arrangements, the Board approved the appointment of its existing investment manager, F&C Investment Business Limited ("FCIB"), as the Company's alternative investment fund manager (the "AIFM") on the terms of and subject to the conditions of a new investment management agreement between the Company and the AIFM. The Company's existing management agreement with FCIB was replaced with a new agreement. The management fee, performance fee and notice period provisions remain unchanged.

The Board has appointed J.P. Morgan Europe Limited (the "Depository") to act as the Company's Depository (as required by the AIFMD) on the terms of and subject to the conditions of a depository agreement between the Company, the AIFM and the Depository.

Share Issues

The Company has experienced continued market demand for its Ordinary Shares and has issued 22.8

million Ordinary Shares during the year at a premium to the published net asset value at the time of each issuance, raising proceeds of £18.2 million. At the year end there were 230,855,539 Ordinary Shares in issue.

In order to take advantage of the prevailing market conditions and investment opportunities identified by the Investment Manager, the Board is proposing to raise additional share capital through a Placing Programme of up to 100 million new Ordinary Shares. Initially the Board is proposing to issue new Ordinary Shares pursuant to the shareholder authority to allot up to 23,085,500 new Ordinary Shares (being approximately 10 per cent of the current issued share capital) being sought at the Annual General Meeting. Once the Annual General Meeting authority has been exhausted, the Company will convene further general meetings to seek shareholder approval for the additional disapplication of pre-emption rights in relation to the issue of further new Ordinary Shares under the Placing Programme.

New Ordinary Shares will only be issued to new and existing shareholders under the Placing Programme at a premium to the prevailing NAV at the time of issue.

The Company intends to publish a prospectus containing full details of the Placing Programme in due course.

UK REIT Status

Since 1 January 2007 there has been legislation in place in the United Kingdom to enable qualifying companies (or groups) to apply for Real Estate Investment Trust (REIT) status. The main tax advantage of the UK-REIT regime is that net rental income derived from its rental property portfolio is exempt from UK income or corporation tax, as are capital gains on the disposal of the rental properties. Prior to 17 July 2012 groups entering the UK-REIT regime were required to pay a one off charge equal to 2 per cent of the value of their property assets. This conversion charge has now been abolished and becoming a UK REIT is more attractive.

The Company has been paying progressively more tax on its profits over recent years and looks set to pay even more moving forward as it has to renegotiate its

Chairman's Statement (continued)

inter-company loan arrangements. The Board therefore believes that it is in the best interests of the Group and shareholders taken as a whole that the Group keeps UK tax to a minimum and accordingly is proposing that the Company takes the necessary steps on behalf of the Group in order for the Group to achieve UK-REIT status.

A separate Circular, outlining this proposal in more detail and convening an extraordinary general meeting will be sent to shareholders shortly.

Outlook

The UK commercial property market appears to be set fair for the foreseeable future. There is likely to be continued investor demand for an asset class whose fundamentals are correlated to the wider economic position. Uncertainties may exist but the property market is predicted to deliver sustained positive total returns. Whereas it is well placed to take advantage of the current market conditions, the Board is conscious of the need to reflect quality throughout the portfolio, with an emphasis on longer term income and good quality covenants. We believe that the portfolio is more resilient following recent sales and asset management initiatives, and that there are further opportunities to improve the quality of stock in a strengthening market. The Manager will continue to use the current strong investor demand to dispose of further properties which do not fit the profile of the enlarged fund. At the same time the Company will purchase further investments using new equity raising and sales proceeds to strengthen the portfolio.

Quentin Spicer

Chairman

16 October 2014

Business Model and Strategy

The Company carries on business as a closed-ended property investment company. Its shares are traded on the Main Market of the London Stock Exchange.

Board

The Board of Directors is responsible for the overall stewardship of the Group, including investment and dividend policies, corporate strategy, corporate governance, and risk management. As set out in the Directors' Responsibility Statement on page 25 the Board is also responsible for the preparation of the Annual Report and Consolidated Accounts for each financial period. Biographical details of the Directors, all of whom are non-executive, can be found on page 15. The Board consists of five male non-executive Directors. The Company has no executive Directors or employees.

Investment Strategy

The Company's investment strategy is set out in its objective and investment policy below.

Objective

The Group's investment objective is to provide ordinary shareholders with an attractive level of income together with the potential for income and capital growth from investing in a diversified UK commercial property portfolio.

Investment Policy

The Group holds a diversified portfolio of freehold and predominantly long leasehold (over 60 years remaining at the time of acquisition) UK commercial properties. It invests principally in three commercial property sectors: office, retail (including retail warehouses) and industrial.

The Group invests predominantly in income producing investments. Investment decisions are based on analysis of, amongst other things, prospects for future income and capital growth, sector and geographic prospects, tenant covenant strength, lease length, initial and equivalent yields and the potential for development or redevelopment of the property. The Group will not invest in other investment companies or funds.

Investment risks are spread through investing in a range of geographical areas and sectors, and through letting properties, where possible, to low risk tenants. The Group has not set any maximum geographic exposures, but the maximum weightings in the principal property sectors (stated as a percentage of total assets) are: office: 60 per cent; retail: 60 per

cent; and industrial: 50 per cent. No single property may exceed 15 per cent of total assets* and the five largest properties may not exceed 45 per cent of total assets.* Income receivable from any one tenant, or tenants within the same group, in any one financial year shall not exceed 20 per cent of the total rental income of the Group in that financial year. At least 90 per cent by value of properties held shall be in the form of freehold, feuhold or long leasehold (over 60 years remaining at the time of acquisition) properties or the equivalent.

The Group uses gearing to enhance returns over the long term. Gearing, represented by borrowings as a percentage of investment properties, may not exceed 60 per cent. However, it is the Board's present intention that borrowings will be limited to a maximum of 40 per cent of total assets at the time of borrowing. The Board receives recommendations on gearing levels from the Manager and is responsible for setting the gearing range within which the Manager may operate. The Group's borrowings are represented by a £109 million bank loan, which is described in more detail in note 12 to the accounts. The gearing level as at 30 June 2014 was 29.4 per cent of total assets.

Investment of Assets

At each Board meeting, the Board receives a detailed presentation from the Manager together with a comprehensive analysis of the performance of the Group and compliance with investment restrictions during the reporting period. An analysis of how the portfolio was invested as at 30 June 2014 is contained within the Manager's Review on pages 8 to 11 and a full portfolio listing is provided on page 14.

Environmental Policy

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

The Board has endorsed the Manager's own environmental policy which is to work in partnership with contractors, suppliers, tenants and consultants to minimise those impacts, seeking continuous improvements in environmental performance and conducting regular reviews.

**applicable only on acquisition or disposal of a property. Does not apply to lettings to the Government of the United Kingdom.*

Business Model and Strategy (continued)

Shareholder Value

The Board and the Manager recognise the importance of the share price relative to net asset value in maintaining shareholder value. The Manager meets with current and potential new shareholders, and with stockbroking analysts who cover the investment company sector, on a regular basis. In addition, communication of quarterly portfolio information is provided through the Group's website.

Principal Risks and Risk Management

As stated within the Report of the Audit Committee on pages 21 and 22, the Board applies the principles detailed in the internal control guidance issued by the Financial Reporting Council, and has established an ongoing process designed to meet the particular needs of the Company in managing the risks and uncertainties to which it is exposed.

The principal risks and uncertainties faced by the Company are described below. Note 17 also provides detailed explanations of the risks associated with the Company's financial instruments.

- Market – the Company's assets comprise principally direct investments in UK commercial property and it is therefore exposed to movements and changes in that market.
- Investment and strategic – poor investment processes and incorrect strategy, including sector and geographic allocations and use of gearing, could lead to poor returns for shareholders.
- Regulatory – breach of regulatory rules could lead to suspension of the Group's Stock Exchange listing, financial penalties or a qualified audit report.
- Tax efficiency – changes to the management and control of the Group or changes in legislation could result in the Group no longer being a tax efficient investment vehicle for shareholders.
- Financial – inadequate controls by the Manager or third party service providers could lead to misappropriation of assets. Inappropriate accounting policies or failure to comply with accounting standards could lead to misreporting or breaches of regulations.
- Reporting – valuations of the investment property portfolio require significant judgement by valuers which could lead to a material impact on the net asset value. Incomplete or inaccurate income recognition could have an adverse effect on the Group's net asset value, earnings per share and dividend cover.

- Operational – failure of the Manager's accounting systems or disruption to the Manager's business, or that of third party service providers, could lead to an inability to provide accurate reporting and monitoring, leading to a loss of shareholders' confidence.

The Board seeks to mitigate and manage these risks through continual review, policy-setting and enforcement of contractual obligations. It also regularly monitors the investment environment and the management of the Group's property portfolio, and applies the principles detailed in the internal control guidance issued by the Financial Reporting Council.

Key Performance Indicators

A review of the Group's returns during the financial year, the position of the Company at the year-end, and the outlook for the coming year is contained in the Chairman's Statement and the Manager's Review.

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

- Net asset value total return.
- Portfolio total return against the Investment Property Databank UK Quarterly Index ('IPD').
- Premium/discount of share price to net asset value.
- Dividend per share and dividend yield.
- Ongoing charges as a percentage of average net assets (excluding direct property expenses).

Performance against these indicators is contained in the Financial Highlights on page 1, the Chairman's Statement on pages 2 to 4 and/or in the Historic Record on page 53.

Investment Manager



Ian McBryde
Investment Manager

Ian McBryde Investment Manager joined F&C Asset Management plc in 1982 and is a director of F&C REIT Asset Management. He is a fellow of the Royal Institution of Chartered Surveyors.

Investment Manager

The Board has appointed F&C Investment Business Limited (referred to throughout this report as 'FCIB' or 'the Investment Manager') as the Company's investment manager and F&C REIT Property Management Limited (referred to throughout this document as 'F&C REIT' or 'the Property Manager') as the Company's property manager. FCIB and F&C REIT are, collectively, referred to in this document as 'the Manager', and are both part of F&C Asset Management plc ('F&C').

F&C is a leading asset manager in both the UK and Europe and has £83.4 billion of funds under management (as at 30 June 2014). F&C provides

investment management and other services to a range of investment companies. In addition, it is one of the largest property managers in the UK, with property funds under management of £7.6 billion (as at 30 June 2014), and manages property investments on behalf of a wide range of clients including the Company and F&C Commercial Property Trust Limited.

On 7 May 2014, Bank of Montreal completed the acquisition of F&C through its wholly owned subsidiary, BMO Global Asset Management (Europe) Limited. F&C is now part of the BMO Financial Group.

Manager's Review



1-2 Network, Bracknell

The UK commercial property market delivered a total return of 16.7 per cent in the year to June 2014, as measured by the Investment Property Databank ("IPD") UK Quarterly Index for all-property, excluding transactions and developments. This represented a sharp turnaround from the 4.8 per cent return of the previous year. This is the best June to June annual performance since 2010.

Performance was supported by an income return of 5.5 per cent, but the year was marked by a return to capital growth, and this drove the improvement in total returns. Capital values rose by 10.6 per cent during the year, following two years of decline.

The year to June 2014 has seen the UK economy deliver sustained growth, with GDP rising by more than 3 per cent according to preliminary estimates and finally recovering the output losses seen during the recession. Both business and consumer confidence are on an improving trend. Inflation has remained subdued at 1.9 per cent over the period, slightly below the official target. Fiscal policy is still focused on reducing government account imbalances but monetary conditions are supportive, with low official interest rates remaining unchanged, ten year gilt yields modest by past standards, and signs of some easing in credit market conditions.

Although the economic backdrop has brightened, it may be that the improvement in total returns owes more to the weight of money coming into property. Investment activity totalled almost £55 billion in the year to June 2014, well ahead of the £30 billion seen in the previous 12 month period, according to Property Data. Overseas investors have remained a major source of net investment into property and have continued to

boost the London market in particular. However, the year also saw greater net investment in property by institutions, often for long-lease, index-linked assets.

Investor interest in prime property and London assets remained intense but strong competition, keen pricing and a lack of stock led to investors broadening their search to the regions, to some secondary assets and to emerging property segments. IPD data shows initial yields at the all property level compressing by 60 basis points to 5.4 per cent in the year to June.

The upturn in the property market has been broadly based, with all the standard IPD segments delivering double digit total returns in the year to June 2014. The turnaround in the fortunes of the office markets outside London and industrials was especially marked. There are differences in absolute performance with West End/Midtown offices, Rest of South East offices and industrials recording annual total returns in excess of 20 per cent. In contrast, standard retails outside the South East delivered a total return of 9.9 per cent.



14 Berkeley Street, London W1

The retail sector as a whole continued to under-perform the all property average. Central London retail recorded another strong performance but elsewhere, the impact of structural changes to retailing, business rates and “the wrong space in the wrong place”, coupled with the trend to shorter leases all had an effect on performance. In the office market, London and the South East generally out-performed, although the central City area moved broadly in line with the all property average and there were wide variations in performance between provincial cities. The industrial sector was generally firm with out-performance focused on the core locations of London, the South East and the Midlands.



Unit 3663, Echo Park, Banbury

The occupational market has been more muted than the investment market. Rental growth improved to 2 per cent in the year to June but positive rental advance was still largely confined to London and the South East and some rents are still under pressure especially in some regional office and town centre retail locations. Although there are signs of improved tenant interest, it will take time for economic recovery to produce reduced rental incentives and lead to enhanced rental growth. Net income growth improved to 1.2 per cent during the year but this is still modest and is negative in real terms in the three main property sectors.

Prime property generally out-performed secondary stock during the year in terms of total return, especially in retail. The year saw signs of a move towards near prime and higher yielding assets by investors with inward movements in initial yields at the secondary end becoming more pronounced. This would appear to be largely investment driven and in terms of the income stream, IPD data indicates that the disparity between prime and secondary assets has persisted in most parts of the market.

The property market has delivered a strong performance over the year to June 2014, but the current pace of yield compression may reflect an investment market that has moved somewhat ahead of the underlying fundamentals.

Property portfolio

The year saw capital growth return to the portfolio which was valued at £300.6 million as at 30 June, up from £276.6 million the previous year. The portfolio produced an ungeared total return of 14.9 per cent, which included a return from income of 6.9 per cent.

Properties in the industrial sector witnessed the highest returns at 19.2 per cent, enhanced by some sales and asset management initiatives, followed by offices which returned 16.8 per cent. The return from retail properties was 11.3 per cent overall, with shops in the Rest of the UK sub-sector in particular still witnessing falling rental values and a lack of investor and occupational demand, causing a drag on the portfolio total returns.



Brook Retail Park, Bromsgrove

Manager's Review (continued)



County House, County Square, Chelmsford

Following on from the issue of new equity together with the proceeds of sales, the Company has purchased two new retail warehouses and agreed terms to buy a South East office investment.



Northfields Retail Park, Rotherham

The B&Q unit at Northfields Retail Park, Rotherham was purchased for £10.5 million reflecting a yield of 7.3 per cent. The unit extends to 52,120 square foot and is let to B&Q plc for a term of 20 years from August 2009, with a tenant's break in 2024. The rent is £810,346 per annum and is subject to five yearly reviews geared to the increase in RPI, capped at 3.0 per cent.

The Company also purchased Brook Retail Park in Bromsgrove, a newly completed out of town development comprising two units of 25,000 square foot and 9,000 square foot. Unit 1 is let to Homebase Limited for 20 years at £362,500 per annum, and Unit 2 is let to Pets at Home Ltd for 15 years at £132,750 per annum. The Company purchased the investment for £7.55 million which reflected a yield of 6.2 per cent.

In the last quarter, terms were agreed to buy Building A3, Glory Park, High Wycombe and the purchase was completed on 10 July, after the Company's year-end. The property comprises a 3 storey office building of 19,572 square foot. Two floors are let to Takeda UK Ltd for 15 years with a tenant's break in 2024. A further floor is let to Aptiv Ltd until 2020. The purchase price was £6.97 million reflecting a yield of 7.0 per cent.

The Company has continued with the strategy of selling the smaller lot size properties and those where future returns look compromised. This has been carried out in a market in which investors have become less risk adverse creating better opportunities to sell some of the more secondary assets.

Over the year to 30 June, the Company sold five properties with an aggregate value of £16.05 million (excluding costs). The Company disposed of three older industrial properties; Units A-C, Foundry Lane, Horsham were sold for £5.05 million reflecting a yield of 10.1 per cent and Swift House, Cosford Lane, Rugby was sold for £5.25 million, a yield of 9.4 per cent. Both these properties were subject to lease expiries in 2018 and 2019 with concerns of the risks of potential voids on older secondary units. A single industrial unit in King George Close, Romford, let to a local company, achieved £2.45 million, reflecting a yield of 7.1 per cent.

On the retail side, Units 1/2 Above Bar Church, 89 Above Bar, Southampton was sold for £1.8 million reflecting a yield of 8.6 per cent, but was subject to lease expiries and breaks in 2016/17. 12/20 High Street, Wickford, a leasehold secondary parade of shops was sold for £1.5 million reflecting a yield of 10.6 per cent.

In addition to these sales, the Company also successfully agreed terms to regear the head leasehold interest of 2-3 Pavilion Buildings, Brighton and subsequently sold the investment for £2.5 million reflecting a yield of 6.0 per cent, delivering a return of 30.3 per cent. The Company also exchanged contracts to sell a vacant office building of 14,300 square foot at Globe Park, Marlow for £1.71 million, which compared with the June 2013 value of £1.15 million. These two sales completed in July 2014, after the Company's year-end.

A number of properties out-performed as a result of implementing asset management opportunities, lease renewals or new lettings. One of the largest tenants, HSBC plc agreed to renew the office lease on 1-2 Lochside Way, Edinburgh Park for 10 years from August 2014, with a break at the fifth year, at £699,616 per annum. This increased the value of the property from £6.6 million to £7.3 million and produced a total return for the asset of 24.7 per cent over the period. Unit 2, Wide Lane, Eastleigh, an industrial property, was re-let during the final quarter to UTI Worldwide (UK) Ltd at a rent of £213,899 per annum, increasing the value from £4.9 million to £6.2 million creating a return of 30.9 per cent over the year. The lease of the largest of the two units at Hemel Gateway, Hemel Hempstead, with an area of 62,000 square foot occupied by Majestic Wines, was extended from 2020 for a further 10 years thereby increasing the value from £7.5 million to £9.3 million, returning 29.8 per cent over the year. At 11 Church Street, Kingston upon Thames, the Company took a surrender of the shop lease and relet to Calzedonia on a new lease for 10 years at £165,500 per annum (previously £134,500 per annum), producing a return on that asset of 34.9 per cent.

Against this background, the occupational market for some secondary property, especially retail remains challenging. The effect of lack of demand, coupled with oversupply in some towns continues to have an effect on rental values and the incidence of vacancies in some locations.

Despite new lettings during the year, the void rate on the portfolio has risen to 5.7 per cent although this figure includes Globe Park, Marlow which has since been sold. As a result of the various lease renewals and lettings, the average unexpired lease length across the portfolio has been maintained and is now 7.8 years, compared with 7.9 years in June 2013.

Outlook

The Manager will continue to instigate asset management opportunities to add value within the existing property portfolio. Further sales of smaller and secondary properties which no longer fit the profile of the portfolio will be brought forward, in order to take advantage of the investor appetite for such assets. The proceeds of these sales together with monies raised from further equity raising will be deployed in purchasing new properties as part of the strategy to grow the Company's portfolio, improve the quality of the asset base and reduce levels of gearing. This will be dependent on seeking out suitable investment properties which are priced at a level to generate sustainable returns going forward.

Investor sentiment has improved in the wake of a stronger UK economic performance and an easing of fears about debt markets in Europe. The major uncertainty would appear to be the timing and extent of an upturn in UK interest rates and its impact on the wider economy and property yields. While there are downside risks both in the UK and from abroad, if the economy performs in line with consensus expectations, the property market is predicted to deliver sustained positive total returns. The recent level of total returns may be exceptional, and we would expect some moderation to occur with the income component showing greater prominence over time.

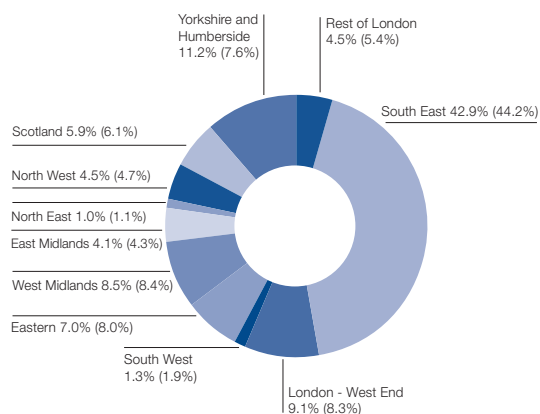
Ian McBryde

F&C REIT Asset Management
16 October 2014

Portfolio Statistics

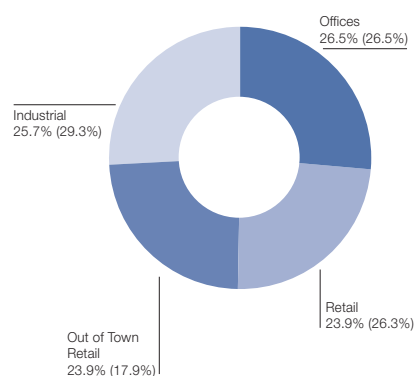
Geographical Analysis

as at 30 June 2014 (prior year comparatives in brackets)



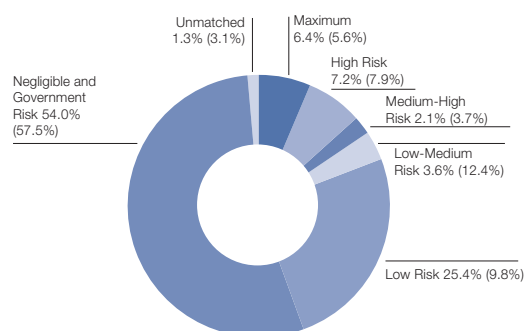
Sector Analysis

as at 30 June 2014 (prior year comparatives in brackets)



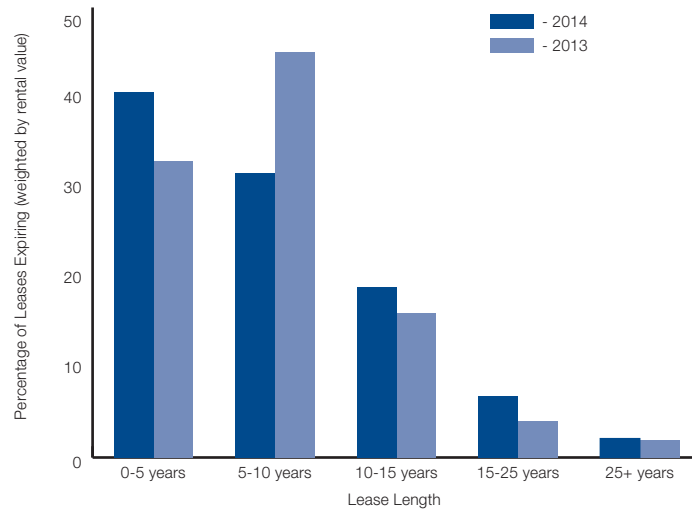
Covenant Strength

as at 30 June 2014 (prior year comparatives in brackets)



As measured by: Investment Property Databank (IPD)

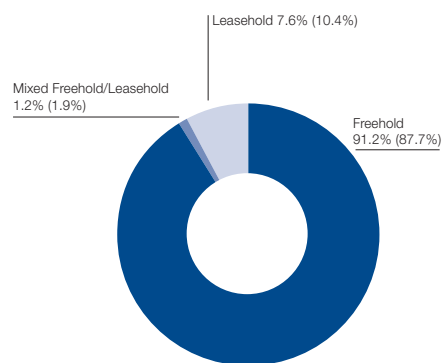
Lease Expiry Profile



As at 30 June 2014 the average lease length for the portfolio, assuming all break options are exercised, was 7.8 years (2013: 7.9 years).

Tenure Analysis

as at 30 June 2014 (prior year comparatives in brackets)



Property Portfolio

Property	Sector	Estimated Market Value £'000	% of Total Assets (less Current Liabilities)
London W1, 14 Berkeley Street	Offices	22,050	7.2%
Banbury, 3663 Unit, Echo Park	Industrial	19,250	6.3%
Eastleigh, Southampton International Park	Industrial	12,215	4.0%
Colnbrook, Units 1-8 Lakeside Road	Industrial	11,825	3.8%
Rotherham, Northfields Retail Park	Retail Warehouse	11,800	3.8%
Leamington Spa, 30-40 The Parade & 47/59a Warwick Street	Retail	10,530	3.4%
York, Clifton Moor Gate *	Retail Warehouse	10,130	3.3%
Hemel Hempstead, Hemel Gateway	Industrial	9,350	3.0%
Chelmsford, County House, County Square	Offices	9,100	3.0%
Andover, Keens House, Anton Mill Road	Offices	8,300	2.7%
Ten largest property holdings		124,550	40.5%
Luton, Enterprise Way	Retail Warehouse	7,800	2.5%
Bury, Halls Mill Retail Park, Foundry Street	Retail	7,765	2.5%
Bracknell, 1-2 Network, Eastern Road	Industrial	7,725	2.5%
Bromsgrove, Brook Retail Park, Sherwood Road	Retail Warehouse	7,700	2.5%
Bellshill, Mercury House, Strathclyde Business Park	Offices	7,500	2.5%
New Malden, 7 Beverley Way	Retail Warehouse	7,400	2.4%
Edinburgh, 1-2 Lochside Way, Edinburgh Park	Offices	7,350	2.4%
Northallerton, Willowbeck Road	Retail Warehouse	7,200	2.4%
Winchester, 7-8 High St. & 50 Colebrook Street	Retail	7,100	2.3%
St Albans, 16, 18 & 20 Upper Marlborough Road	Offices	6,090	2.0%
Twenty largest property holdings		198,180	64.5%
Eastleigh, Wide Lane	Industrial	6,185	2.0%
Theale, Maxi Centre, Brunel Road	Industrial	6,000	2.0%
Guildford, 51-53 High Street	Retail	5,800	1.9%
Nelson, Churchill Way	Retail Warehouse	5,475	1.8%
London SW1, 24 Haymarket & 1/2 Pantons Street *	Retail	5,200	1.7%
Brookwood, The Clock Tower	Offices	5,160	1.7%
Nottingham, Standard Hill	Offices	4,900	1.5%
Hull, King William House, Market Place *	Offices	4,525	1.5%
Newbury, The Triangle, Pinchington Lane	Retail Warehouse	4,385	1.4%
Sutton Coldfield, 63-67 The Parade	Retail	3,900	1.3%
Thirty largest property holdings		249,710	81.3%
Nottingham, 21/22 Long Row East and 2/6 King Street	Retail	3,750	1.2%
Nottingham, 25-27 Bridlesmith Gate	Retail	3,725	1.2%
Rayleigh, 41-55 High Street	Retail	3,600	1.2%
Milton Keynes, Site E Chippenham Drive	Industrial	3,550	1.1%
Sunningdale, 53/79 Chobham Road, Berkshire	Retail	3,480	1.1%
Kingston upon Thames, 11 Church Street	Retail	3,350	1.1%
Birmingham, 155a/163, High Street, Kings Heath	Retail	3,230	1.1%
Redhill, 15 London Road	Offices	3,020	1.0%
Edinburgh, 100A Princes Street	Retail	2,900	0.9%
Swindon, 18/19 Regent Street	Retail	2,815	0.9%
Forty largest property holdings		283,130	92.1%
Croydon, 17, 19 & 21 George Street	Retail	2,810	0.9%
Brighton, 2-3 Pavilion Buildings *	Retail	2,480	0.8%
Rayleigh, 81/87 High Street	Retail	2,325	0.8%
Gateshead, Sands Road	Retail Warehouse	2,250	0.7%
Guildford, 7/11 Bridge Street	Retail	1,950	0.6%
Marlow, Globe Park, Unit GP9	Offices	1,700	0.6%
Southend, 49/57 High Street	Retail	1,200	0.4%
Swindon, Unit 5, Newcombe Drive	Industrial	1,100	0.4%
Middlesbrough, 47/49 Linthorpe Road	Retail	875	0.3%
Newbury, 25 Northbrook Street *	Retail	470	0.1%
Fifty largest property holdings		300,290	97.7%
Rochdale, 40 Yorkshire Street	Retail	300	0.1%
Market value of property portfolio		300,590	97.8%
Unamortised lease incentives		(5,203)	(1.7)%
Balance sheet carrying value		295,387	96.1%
Net current assets		11,888	3.9%
Total assets less current liabilities		307,275	100.0%

*Leasehold property

Board of Directors



Quentin Spicer

Chairman

is a resident of Guernsey and chairman of the Guernsey Housing Association LBG, RAB Special Situations Company Limited, Quintain (Guernsey) Limited and Squarestone Brasil Limited. He is also a non-executive director of other property investment funds.



Graham Harrison

was appointed as a Director on 11 April 2013 and is a resident of Guernsey. He is co-founder and managing director of Asset Risk Consultants Limited, an investment consulting practice. He is a non-executive director of a number of investment and asset management companies.



Andrew Gulliford

is a UK resident. He is a chartered surveyor and was, until 1 January 2006, deputy senior partner of Cushman & Wakefield Healey & Baker. He joined one of its predecessor firms in 1972 and was head of the firm's investment group for twelve years until the end of 2002. He advises a number of institutions on property matters and is also a non-executive director of Helical Bar plc and McKay Securities plc, which are listed property companies.



Vikram Lall

Chairman of the Audit Committee

was appointed as a Director on 11 April 2013 and is a UK resident. He is a qualified chartered accountant and was, until 2003, an executive director of Brewin Dolphin Holdings plc with responsibility for corporate finance. Prior to joining Brewin Dolphin, he worked as a corporate financier for many years. He is a non-executive director of a number of companies.



Christopher Sherwell

is a resident of Guernsey. He worked with the Financial Times for thirteen years before becoming a Far East Regional Strategist for Smith New Court Securities in 1990. In 1993 he joined Schroders in the Channel Islands as investment director of Schroders (C.I.) Limited and was managing director from April 2000 to January 2004. He continued as a non-executive director of Schroders (C.I.) Limited before standing down at the end of 2008. He is a non-executive director of various other investment companies.

Report of the Directors

The Directors present the Report and Accounts of the Group for the year ended 30 June 2014.

Results and Dividends

The results for the year are set out in the attached accounts.

The Company has paid interim dividends in the year ended 30 June 2014 as follows:

	Payment date	Rate per share
Fourth interim for prior year	27 September 2013	1.25p
First interim	27 December 2013	1.25p
Second interim	31 March 2014	1.25p
Third interim	30 June 2014	1.25p

It is the policy of the Directors to declare and pay dividends as interim dividends. The Directors do not therefore recommend a final dividend. A fourth interim dividend of 1.25p was paid on 30 September 2014 to shareholders on the register on 12 September 2014. There was a deficit on revenue reserves after the payment of dividends of 0.5p per share.

Company Number: 41870

Principal Activity and Status

The Company is an authorised closed ended Guernsey-registered company and during the year carried on business as a property investment company. The Company's Shares are traded on the Main Market of the London Stock Exchange.

The Company has a wholly-owned subsidiary, F&C UK Real Estate Finance Limited, which wholly owns IRP Holdings Limited and IPT Property Holdings Limited which hold and manage the investment properties.

Directors

Biographical details of the Directors, all of whom are non-executive can be found on page 15.

The Directors are also directors of F&C UK Real Estate Finance Limited and its subsidiary undertakings IRP Holdings Limited and IPT Property Holdings Limited.

As explained in more detail under Corporate Governance on pages 19 and 20, the Board has agreed that all the Directors will retire annually. Accordingly Mr Spicer, Mr Gulliford, Mr Sherwell, Mr Lall and Mr Harrison will retire at the Annual General Meeting and, being eligible, will offer themselves for re-election. The Board believes that, following internal performance evaluations, their performance continues to be effective and demonstrates commitment, and believes that it is therefore in the interests of shareholders that they

are re-elected. If the Group converts to a UK REIT, the composition of the Board will change and this is currently being considered by the Nomination Committee as discussed on page 20.

There are no service contracts in existence between the Company and any Director. Each of the Directors was appointed by a letter of appointment which sets out the main terms of his appointment.

Management

F&C Investment Business Limited provides investment management services to the Group. Details of the agreement between the Group and F&C Investment Business Limited in respect of management services provided is given in note 2 to the accounts.

The Board has a Management Engagement Committee which keeps under review the appropriateness of the Manager's appointment. In doing so the Committee considers the investment performance of the Group and the capability and resources of the Manager to deliver satisfactory investment performance. It also considers the length of the notice period of the investment management contract and the fees payable to the Manager, together with the standard of the other services provided.

The Directors are satisfied with the Manager's ability to deliver satisfactory investment performance, and the quality of other services provided. It is therefore their opinion that the continuing appointment of the Manager on the terms agreed is in the best interests of shareholders as a whole.

Share Capital

As at 30 June 2014 there were 230,855,539 Ordinary Shares of 1 pence each in issue. Subject to the Articles of Incorporation, all shares rank equally for dividends and distributions and carry one vote each and there are no restrictions concerning the transfer of Ordinary Shares in the Company. No agreements between the holders of Ordinary Shares regarding their transfer is known to the Company and there is no agreement which the Company is party to that affects its control following a take over bid.

Substantial Interests in Share Capital

At 30 June 2014 the following holdings representing more than 3 per cent of the Company's issued share capital had been notified to the Company.

	Number of ordinary shares Held	Percentage Held [†]
F&C Asset Management	32,883,448	14.2
Brewin Dolphin Limited	11,462,762	5.0

[†] Based on 230,855,539 Ordinary Shares in issue as at 30 June 2014.

Between 30 June 2014 and 16 October 2014, Brewin Dolphin Limited increased its holdings in the Company to 11,606,907 representing 5.0 per cent of voting rights and F&C Asset Management reduced its holdings in the Company to 20,724,850 representing 9.0 per cent of voting rights (based on 230,855,539 Ordinary Shares in issue as at 16 October 2014).

Going Concern

In assessing the going concern basis of accounting the Directors have had regard to the guidance issued by the Financial Reporting Council. They have considered the current cash position of the Group, forecast rental income and other forecast cash flows. The Group has an agreement relating to its borrowing facility with which it has complied during the year. Based on this information the Directors believe that the Group has the ability to meet its financial obligations as they fall due for a period of twelve months from the date of the approval of the accounts. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Directors' Authority to Allot Shares

The Company issued 22,805,048 Ordinary Shares during the year. The aggregate net proceeds were £18.2 million. In addition, the Board is proposing to raise additional share capital through a Placing Programme of up to 100 million new Ordinary Shares.

In accordance with the provisions of the Listing Rules, the directors of an overseas premium listed company are not permitted to allot new shares (or grant rights over shares) for cash without first offering them to existing shareholders in proportion to their existing holdings.

The Board therefore proposes a resolution at this year's Annual General Meeting which, if passed, will continue to disapply pre-emption rights.

Resolution 11 therefore, gives the Directors, for the period until the conclusion of the Annual General Meeting in 2015 or, if earlier, on the expiry of 15 months from the passing of Resolution 11, the necessary authority to either allot securities or sell shares held in treasury, otherwise than to existing shareholders on a pro-rata basis, up to an aggregate nominal amount of £230,855. This is equivalent to 10 per cent of the issued ordinary share capital of the Company as at 16 October 2014. It is expected that the Company will seek this authority on an annual basis.

The Board is proposing the Placing Programme to enable the Company to raise additional capital in the period from November 2014 to November 2015 if it is able to identify further properties for acquisition. This should enable the Manager to make a series of accretive property acquisitions over the period whilst also mitigating the risk of cash drag on

shareholders' funds. Once the authority proposed under Resolution 11 has been exhausted the Company will convene further general meetings to seek shareholder approval for the disapplication of pre-emption rights in relation to the further issue of new Ordinary Shares under the Placing Programme.

The Directors will only allot new shares pursuant to this authority if they believe it to be advantageous to the Company's shareholders to do so and will only be issued to new and existing shareholders at a premium to the published net asset value per share, at the time of the allotment.

The Company intends to publish a prospectus containing full details of the Placing Programme in due course.

Directors' Authority to Buy Back Shares

The Group did not buy back any shares during the year.

Resolution 12, as set out in the notice of the Annual General Meeting, seeks renewed authority for the Company to make market purchases of up to 14.99 per cent of the issued ordinary share capital, such authority to last until the earlier of 31 December 2015 and the Annual General Meeting in 2015. Any buy back of ordinary shares will be made subject to Guernsey law and within any guidelines established from time to time by the Board and the making and timing of any buy backs will be at the absolute discretion of the Board. Purchases of ordinary shares will only be made through the market for cash at prices below the prevailing net asset value of the ordinary shares (as last calculated) where the Directors believe such purchases will enhance shareholder value. The price paid will not be less than the nominal value of 1p per share. Such purchases will also only be made in accordance with the rules of the UK Listing Authority which provide that the price to be paid must not be more than 5 per cent above the average of the middle market quotations for the ordinary shares for the five business days before the shares are purchased. Any shares purchased under this authority will be cancelled or held in treasury.

Disclosure to Auditor

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

Auditor

Ernst & Young LLP has expressed its willingness to continue in office as auditor and a resolution proposing its re-appointment will be submitted at the Annual General Meeting.

Report of the Directors (continued)

Statement Regarding Annual Report and Consolidated Accounts

Following a detailed review of the Annual Report and Consolidated Accounts by the Audit Committee, the Directors, in accordance with the UK Corporate Governance Code, consider that taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy. In reaching this conclusion, the Directors have assumed that the reader of the Annual Report and Consolidated Accounts would have a reasonable level of knowledge of the investment industry in general and the investment company and real estate sector in particular.

On behalf of the Board

Q Spicer
Director

16 October 2014

Corporate Governance Statement

The Company is obliged to comply with the UK Corporate Governance Code issued by the Financial Reporting Council in September 2012, or explain any non compliance. It has always been the Company's policy to comply with best practice on corporate governance and it has in place a framework for corporate governance which it believes is suitable for an investment company.

The Board has also considered the principles and recommendations of the Association of Investment Companies Code of Corporate Governance (the "AIC Code") issued in February 2013 and follows the AIC Corporate Governance Guide for Investment Companies (the "AIC Guide") which complements the UK Corporate Governance Code, and provides a framework of best practice for investment companies.

The AIC Code and the AIC Guide are available on the AIC's website, www.theaic.co.uk. The UK Corporate Governance Code is available on the Financial Reporting Council's website, www.frc.org.uk.

The Board considers that it is appropriate to report against the principles and recommendations of the AIC Code and by reference to the AIC Guide (which incorporates the UK Corporate Governance Code).

The Board has reviewed the need for an internal audit function and deemed this function unnecessary as discussed in the Report of the Audit Committee.

It is the intention of the Board that, except for the matters disclosed below, that the Group will comply fully with the Code throughout the year ended 30 June 2015.

Since all the Directors are non-executive, in accordance with the AIC Code and the preamble to the UK Corporate Governance Code, the provisions of the UK Corporate Governance Code on the role of the chief executive (Section A) and, except in so far as they apply to non-executive Directors, on Directors' remuneration, (Section D) are not relevant to the Company, and are not reported on further.

The Guernsey Financial Services Commission issued a Finance Sector Code of Corporate Governance ('the GFSC Code') which came into effect on 1 January 2012. As the Company already reports against the AIC Code and the UK Corporate Governance Code it is deemed that it has met the requirements of the GFSC Code and has therefore not reported further on its compliance with that code. The GFSC Code is available on the Guernsey Financial Services Commission's website, www.gfsc.gg.

The Company's Articles of Incorporation require all Directors to retire by rotation at least every three

years. However, in accordance with the recommendations of the AIC Code and the UK Corporate Governance Code, the Board has agreed that all Directors will retire annually and, if appropriate, seek re-election. 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 Company's Directors, including the Chairman has been imposed. Mr Spicer, Mr Sherwell and Mr Gulliford have served on the Board in excess of nine years. The Board does not consider that length of service affects the ability of each Director to act independently and also considers that each Director is independent in character and judgement. The Board do not consider it appropriate for a Senior Independent Director to be appointed as recommended by provision 4.1 of the AIC Code.

The Board consists solely of non-executive Directors of which Mr Spicer is Chairman. All Directors are considered by the Board to be independent, (as defined by the AIC Code), of the Group's Manager as at 30 June 2014. New Directors will receive an induction from the Manager and Secretary on joining the Board, and all Directors receive other relevant training as necessary.

The basis on which the Group aims to generate value over the longer term is set out in its objective and investment policy as contained on page 5. A management agreement between the Group and its Manager sets out the matters over which the Manager has authority and the limits beyond which Board approval must be sought. All other matters, including strategy, investment and dividend policies, gearing and corporate governance procedures and risk management, are reserved for the approval of the Board of Directors. The Board currently meets at least quarterly and receives full information on the Group's investment performance, assets, liabilities and other relevant information in advance of Board meetings.

Throughout the year a number of committees have been in operation. The committees are the Property Valuation Committee, the Audit Committee, the Management Engagement Committee and the Nomination Committee. The Committees operate within clearly defined terms of reference which are available for inspection on request at the Company's registered office.

As stated in the Remuneration Report on page 23, the full Board determines the level of Directors' fees and accordingly there is no separate Remuneration Committee.

Corporate Governance Statement (continued)

The table below sets out the number of scheduled Board and Committee meetings attended by each Director during the year.

	Board Meetings Attended	Property Valuation Committee Attended	Audit Committee Attended	Management Engagement Committee Attended	Nomination Committee Attended
Q Spicer	4	4	3	1	1
A E G Gulliford	4	4	2	1	1
C W Sherwell	4	4	3	1	1
G M Harrison	4	4	3	1	1
V Lall	4	4	3	1	1

In addition to the scheduled meetings detailed above, there were a further 15 Board Meetings and 4 Board Committee meetings held in Guernsey during the year, attended by non UK resident Directors.

Property Valuation Committee

The Property Valuation Committee comprises all of the Directors and is chaired by Andrew Gulliford. The Committee reviews the quarterly property valuation report produced by the valuer.

Management Engagement Committee

The Management Engagement Committee, chaired by Mr Harrison, comprises the full Board and reviews the appropriateness of the Manager's continuing appointment together with the terms and conditions thereof on a regular basis.

The committee also reviews the terms and quality of service received from other service providers on a regular basis.

Nomination Committee

The Nomination Committee comprises all of the Directors and is chaired by Mr Spicer. The Board considers that, given its size, it would be unnecessarily burdensome to establish a separate nomination committee which did not include the entire Board and believes that this enables all Directors to be kept fully informed of any issues that arise. The committee is convened for the purpose of considering the appointment of additional Directors as and when considered appropriate. Any appointments to the Board are based on merit, but in considering appointments the Nomination Committee also takes into account the ongoing requirements of the Company and the need to have a balance of skills, experience, independence, diversity, including gender, and knowledge of the Company within the Board. The Directors have not set any measurable objectives in relation to the diversity of the Board.

During the year the performance of the Board, committees and individual Directors was evaluated through an assessment process, led by the Chairman. The performance of the Chairman was evaluated by the other Directors.

If the Group converts to a UK REIT, Mr Sherwell and Mr Harrison will retire from the Board at the date this becomes effective.

The Committee are currently looking at potential candidates to join the Board as well as further refreshment of the Board going forward.

Individual Directors may, at the expense of the Group, seek independent professional advice on any matter that concerns them in the furtherance of their duties. The Group maintains appropriate Directors' and Officers' liability insurance.

Relations with Shareholders

The Company proactively seeks the views of its shareholders and places great importance on communication with them. The Board receives regular reports from the Manager and brokers on the views of shareholders, and the Chairman and other Directors meet with major shareholders at least annually and make themselves available to meet shareholders when required to discuss any significant issues that have arisen and address shareholder concerns and queries. The Notice of Annual General Meeting to be held on 19 November 2014 is set out on pages 51 and 52. It is hoped that this will provide a forum, both formal and informal, for shareholders to meet and discuss issues with the Directors and Manager of the Company. The Annual Report and Notice of Annual General Meeting are posted to shareholders at least 20 working days before the Annual General Meeting.

On behalf of the Board

Q Spicer
Director

16 October 2014

Report of the Audit Committee

The Audit Committee, chaired by Mr Lall, comprises all of the Directors. The duties of the Audit Committee in discharging its responsibilities include reviewing the Annual Report and Interim Accounts, the system of internal controls and the terms of appointment of the auditor together with its remuneration. It is also the forum through which the external auditor reports to the Board of Directors. The Committee reviews the scope and results of the audit, its cost-effectiveness and the independence and objectivity of the external auditor, with particular regard to non-audit fees. The committee meets at least three times a year including at least one meeting with Ernst & Young ("EY").

The Audit Committee met on three occasions during the year and the attendance of each of the members is set out on page 20. In the due course of its duties, the committee had direct access to EY and senior members of the Managers' investment company team. Amongst other things, the Audit Committee considered and reviewed the following matters and reported thereon to the Board:

- the annual and half-yearly reports and accounts and interim management statements;
- the accounting policies of the Group;
- the principal risks faced by the Group and the effectiveness of the Group's internal control environment;
- the effectiveness of the audit process and related non-audit services and the independence and objectivity of EY, their re-appointment, remuneration and terms of engagement;
- the policy on the engagement of EY to supply non-audit services;
- the implications of proposed new accounting standards and regulatory changes; and
- the receipt of an AAF (01/06) report from the Manager.

As part of its review of the scope and results of the audit, during the year the Audit Committee considered and approved EY's plan for the audit of the financial statements for the year ended 30 June 2014. At the conclusion of the audit, EY did not highlight any issues to the Audit Committee which would cause it to qualify its audit report, nor did it highlight any fundamental internal control weaknesses. EY issued an unqualified audit report which is included on pages 26 to 28.

In relation to the provision of non-audit services by the auditor, it has been agreed that all non-audit work to be carried out by the auditor must be approved in advance by the Audit Committee and any special projects must also be approved in advance. Such fees amounted to £36,000 for the year ended 30 June 2014 (year ended 30 June 2013: £118,000) and related to the provision of taxation services. In the previous year ended

30 June 2013, non-audit fees included services provided on the merger with ISIS Property Trust. Notwithstanding such services the Audit Committee considers EY to be independent of the Group. The Audit Committee does not consider that the provision of such non-audit services is a threat to the objectivity and independence of the conduct of the audit.

As part of the review of auditor independence and effectiveness, EY have confirmed that they are independent of the Group and have complied with relevant auditing standards. In evaluating EY, the Audit Committee has taken into consideration the standing, skills and experience of the firm and the audit team. The Committee assesses the effectiveness of the audit process through the reporting it receives from EY in respect of the year end Annual Report and Consolidated Accounts. The Committee remains satisfied that EY continues to provide effective independent challenge in carrying out its responsibilities. On the basis of this assessment, the Audit Committee has recommended the continuing appointment of EY to the Board. Following professional guidelines, the audit partner rotates after five years and this is the first year for the current partner. The appointment has not been put out to tender since the Company's launch in 2004. EY's performance will continue to be reviewed annually taking into account all relevant guidance and best practice.

Internal Controls

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. The Board has therefore established an ongoing process designed to meet the particular needs of the Group in managing the risks to which it is exposed, consistent with internal control guidance issued by the Financial Reporting Council. The process is based principally on the Manager's existing risk-based approach to internal control whereby a risk matrix is created that identifies the key functions carried out by the Manager and other service providers, the individual activities undertaken within those functions, the risks associated with each activity and the controls employed to minimise those risks. A residual risk rating is then applied. The risk matrix is regularly updated and the Board is provided with regular reports highlighting all material changes to the risk ratings and confirming the action which has been, or is being, taken.

A formal annual review of these procedures is carried out by the Audit Committee. The Audit Committee has also reviewed the Manager's "Report on Policies and Procedures in Operation and Tests in accordance with AAF (01/06)" for the year ended 31 December 2013 that has been prepared for their investment company clients. Containing a report from independent external accountants, the report sets out the Manager's control policies and procedures with respect to the management of their clients' investments. The effectiveness of these controls is monitored by the Manager's group audit

Report of the Audit Committee (continued)

committee which receives regular reports from the Manager's audit, risk and compliance department. Procedures are in place to capture and evaluate failings and weaknesses and ensure that action would be taken to remedy any significant issues identified from this monitoring, which would be reported to the Board. No significant failings or weaknesses in respect of the Group were identified in the year under review nor to date of this report.

Such review procedures have been in place throughout the year and up to the date of approval of the Annual Report, and the Committee is satisfied with their effectiveness. These procedures are designed to manage rather than eliminate risk and, by their nature can only provide reasonable, but not absolute, assurance against material misstatement or loss.

At each Board meeting the Board monitors the investment performance of the Group in comparison to its stated objective and against comparable

companies. The Board also reviews the Group's activities since the last Board meeting to ensure that the Manager adheres to the agreed investment policy and approved investment guidelines and, if necessary, approves changes to such policy and guidelines. In addition, at each Board meeting, the Board receives reports from the Secretary in respect of compliance matters and duties performed on behalf of the Group.

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

Significant Matters Considered by the Audit Committee in Relation to the Financial Statements

Matter	Action
Valuation and ownership of the Investment Property Portfolio	
The Group's property portfolio accounted for 92.8 per cent of its total assets as at 30 June 2014. Although valued by an independent firm of valuers, DTZ Debenham Tie Leung Limited, the valuation of the investment property portfolio is inherently subjective, requiring significant judgement by the valuers. Errors in the valuation could have a material impact on the Group's net asset value. Further information about the property portfolio and inputs to the valuations are set out in note 8 to the accounts. The title deeds are held by the Group's property lawyers.	<p>The Board and Audit Committee reviewed the outcomes of the valuation process throughout the year and discussed the detail of each of the quarterly valuations with the Manager at Board Meetings. The Manager liaises with the valuers on a regular basis and meets with them prior to the production of each quarterly valuation. The Board was represented at most of the quarterly valuation meetings with DTZ Debenham Tie Leung Limited during the year, including the meeting in advance of the production of the year end valuation. In addition, this is the main area of audit focus and, accordingly, the Audit Committee receives detailed verbal and written reports from EY on this matter.</p> <p>The auditor verifies ownership of the properties by reviewing the title deeds.</p>

Loan Arrangements

The Group has a £115 million loan facility with Lloyds Bank of which £109 million is currently drawn down. The loan facility is subject to various covenants, a breach of which could result in early repayment or penalties. There is a £100 million swap to fix the majority of the loan interest on this loan, with the swap liability being valued on a quarterly basis.

The Board and Audit Committee review the bank covenants throughout the year to ensure that there is no risk of these being breached. The swap valuations are valued independently by Lloyds Bank. The valuation of the swap is verified by the auditor.

Income Recognition

Incomplete or inaccurate recognition could have an adverse effect on the Group's net asset value, earnings per share and dividend cover.

The Board and the Audit Committee review the revenue forecast on a quarterly basis to ensure that the level of income is able to sustain the dividend. They also review the level and speed of income collection and any provisions for bad debts.

V Lall
Chairman of the Audit Committee
16 October 2014

Remuneration Report (unaudited)

Directors' Remuneration Policy

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

Full details of the Company's policy with regards to Directors' fees, and fees paid during the year ended 30 June 2014, are shown below. No major decisions or substantial changes relating to Directors' remuneration were made during the year.

The Board considers the level of Directors' fees at least annually. Its policy is that the remuneration of the Directors should reflect the experience of the Board as a whole, the time commitment required, and be fair and comparable with that of other similar companies. Furthermore, the level of remuneration should be sufficient to attract and retain the Directors needed to oversee the Company properly and to reflect its specific circumstances. There were no changes to the policy during the year and it is intended that this policy will continue for the year ending 30 June 2015 and subsequent years.

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

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

The terms of Directors' appointments provide that Directors should retire and be subject to re-election at the first Annual General Meeting after their appointment. However, in accordance with the recommendations of the UK Corporate Governance Code, the Board has agreed that all Directors will retire annually. There is no notice period and no provision for compensation upon early termination of appointment.

Future Policy Report

Based on the current levels of fees, Directors' remuneration for the forthcoming financial year will be as follows:

	2015* £	2014† £
Q Spicer	32,500	30,000
A E G Gulliford	27,500	25,000
C W Sherwell	27,500	25,000
V Lall	28,500	26,000
G M Harrison	27,500	25,000
Total	143,500	131,000

* Directors' remuneration for the year ending 30 June 2015 based on current fee levels

† Actual Directors' remuneration for the year ended 30 June 2014

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

Voting at Annual General Meeting

An ordinary resolution for the approval of this Directors' Remuneration Policy will be put to shareholders at the forthcoming Annual General Meeting.

Remuneration Report (unaudited)

Annual Report on Directors' Remuneration

Directors' Emoluments for the Year

The Directors who served during the year received the following emoluments in the form of fees:

	2014 £	2013 £
Q Spicer	30,000	30,000
A E G Gulliford	25,000	25,000
C W Sherwell	25,000	25,000
C P Spencer ⁽¹⁾	–	19,520
C G H Weaver ⁽¹⁾	–	19,520
G M Harrison ⁽²⁾	25,000	5,479
V Lall ⁽²⁾	26,000	5,699
M S Soames ⁽³⁾	–	3,562
Total	131,000	133,780

⁽¹⁾ Retired from the Board on 11 April 2013.

⁽²⁾ Appointed to the Board on 11 April 2013.

⁽³⁾ Served on the Board from 11 April 2013, until his death on 2 June 2013.

Relative Importance of Spend on Pay

The table below shows the actual expenditure during the year in relation to Directors' remuneration, other expenses and shareholder distributions:

	2014 £	2013 £	% Change
Aggregate Directors' Remuneration	131,000	133,780	–2.1
Management fee and other expenses*	3,404,000	2,446,000	+39.2
Aggregate Shareholder Distributions	10,840,000	7,956,000	+36.2

* Includes directors' remuneration and excludes expenses of merger

Directors' Shareholdings

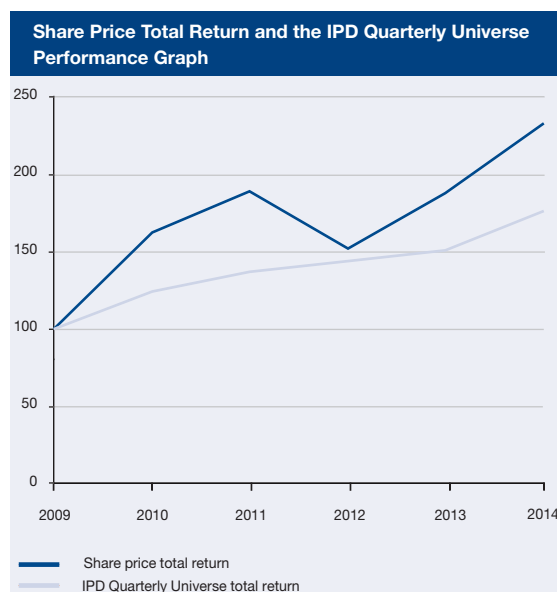
The Directors who held office at the year-end and their interests (all beneficial) in the Ordinary Shares of the Company were as follows:

	2014 Ordinary Shares	2013 Ordinary Shares
Q Spicer	220,000	220,000
A E G Gulliford	144,030	144,030
C W Sherwell	20,000	20,000
V Lall	137,265	137,265
G M Harrison	22,895	22,895

Between 30 June 2014 and 16 October 2014 there were no changes to Directors' shareholdings.

Company Performance

The Board is responsible for the Group's investment strategy and performance, although the management of the Group's investment portfolio is delegated to the Manager through the investment management agreement, as referred to on page 16. The graph below compares, for the five financial years ended 30 June 2014, the total return (assuming all dividends are reinvested) to ordinary shareholders compared with the total return on a notional investment from the IPD Quarterly Universe. This index was chosen as it is considered a comparable index and is the Company's benchmark for performance fee purposes. An explanation of the performance of the Company for the year ended 30 June 2014 is given in the Chairman's Statement and Manager's Review.



Voting at Annual General Meeting

At the Company's last Annual General Meeting, held on 19 November 2013, shareholders approved the Directors' Remuneration Report in respect of the year ended 30 June 2013. 99.8 per cent of votes were in favour of the resolution and 0.2 per cent were against.

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

On behalf of the board

Q Spicer
Director

16 October 2014

Directors' Responsibility Statement

Directors' Responsibilities for the Annual Report and Consolidated Accounts

The Directors are responsible for preparing the Annual Report and the Group financial statements in accordance with applicable law and regulations. They are also responsible for ensuring that the Annual Report includes information required by the Rules of the UK Listing Authority.

Guernsey company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the EU and applicable law.

The financial statements are required by law to give a true and fair view of the state of affairs of the Group and of the financial performance and cash flows of the Group for that period.

In preparing these financial statements, the Directors are required to:

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

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies (Guernsey) Law, 2008. They have a general responsibility for taking such steps as are reasonably

open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are also responsible for ensuring that the Group complies with the provisions of the Listing Rules and the Disclosure Rules and Transparency Rules of the UK Listing Authority which, with regard to corporate governance, require the Group to disclose how it has applied the principles, and complied with the provisions of the UK Corporate Governance Code applicable to the Group.

Directors' Responsibility Statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole;
- that in the opinion of the Board, the Annual Report and Consolidated Accounts taken as a whole is fair, balanced and understandable and it provides the information necessary to assess the Group's performance, business model and strategy; and
- the Strategic Report (including the Chairman's Statement, Business Model and Strategy, Manager's Review and Property Portfolio) and Report of the Directors include a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

On behalf of the Board

Q Spicer
Chairman

16 October 2014

Independent Auditor's Report

Independent Auditor's Report to the Members of F&C UK Real Estate Investments Limited

Opinion on consolidated financial statements

In our opinion the consolidated financial statements:

- give a true and fair view of the state of the Group's affairs as at 30 June 2014 and of its profit for the period then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies (Guernsey) Law 2008.

What we have audited

We have audited the consolidated financial statements of F&C UK Real Estate Investments Limited for the year ended 30 June 2014 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and 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 Group'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 Group and the Group'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 explained more fully in the Directors' Responsibility Statement set out on page 25, the Directors are responsible for the preparation of the consolidated 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 consolidated financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the consolidated financial statements

An audit involves obtaining evidence about the amounts and disclosures in the consolidated financial statements sufficient to give reasonable assurance that the consolidated financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the consolidated financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited consolidated financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Our assessment of risks of material misstatement

We identified the following risks that we believed would have the greatest impact on our overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team:

- Valuation of the investment properties; and
- Incomplete or inaccurate revenue recognition.

These were also considered as 'Significant Matters Considered by the Audit Committee in Relation to the Financial Statements'. Further discussion can be found in the 'Report of the Audit Committee' in the Annual Report.

Our application of materiality

We apply materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and in the auditor's report on the financial statements and in forming our opinion. We apply the concept of materiality to the individual account or balance level through our determination of performance materiality, which is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

When establishing our overall strategy we determined materiality for the Group to be £3.18 million which was 1% of Total Assets. This provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

On the basis of our risk assessment, together with our assessment of the overall control environment, our judgement is that performance materiality (i.e. our tolerance for misstatement in an individual account or balance) for the Group should be 75% of our materiality, namely £2.39 million. Our objective in adopting this approach was to ensure that detected and undetected audit differences in all accounts did not exceed our materiality level.

We agreed that all audit differences in excess of £0.16 million would be reported to the Audit Committee as well as differences below that threshold that in our view warranted reporting on qualitative grounds.

An overview of the scope of our audit

The Group consists of the Company and its three wholly owned subsidiaries, which are all subject to a full scope audit by the Group audit team.

Following our assessment of the risk of material misstatement to the Group's consolidated financial statements, our response was as follows:

We addressed the risk around the valuation of the Group's investment properties by:

- Obtaining a copy of the AAF01/06 report on F&C Asset Management plc, which includes the Manager, for the year ended 31 December 2013 and reading it in order to ascertain whether the controls over the capture of the revised valuations were operating effectively and could be relied upon in our audit strategy. As the AAF01/06 report did not cover the entire financial year, we also obtained:
- A copy of the representation from F&C Asset Management Limited to the Directors of the Company that those controls also operated effectively during the period from 1 January 2014 to 30 June 2014; and
- Performed a walkthrough of the process during the period from 1 January 2014 to 30 June 2014 by which the revaluations of investment properties are captured in order to determine whether they were processed as set out in the AAF01/06 report;
- Reading third party property valuation reports to assess the appropriateness and suitability of the reported values, and the changes in value from the previous accounting period;
- Assessing the independence and qualifications of the appraisers; and
- For a sample of investment properties, assessing the reasonableness of the valuation methodology adopted, and the key valuation inputs and assumptions, where possible supporting these by reference to published market data/information, comparable transaction evidence or anecdotal evidence through market activity.

We addressed the risk around the incomplete or inaccurate rental income recognition by:

- Understanding the changes in rental income from the previous accounting period;
- Agreeing a sample of rental rates to tenancy agreements;

Independent Auditor's Report (continued)

- Agreeing a sample of rental income from the Group's income report to bank statements; and
- For a sample of tenancy agreements, assessing the appropriateness of the accounting treatment for rent-free periods.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the ISAs (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 consolidated 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.

We have nothing to report in respect of the following matters where Companies (Guernsey) Law, 2008 require us to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the consolidated financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

David Robert John Moore
For and on behalf of
Ernst & Young LLP
Recognised Auditors
Guernsey
Channel Islands
16 October 2014

The maintenance and integrity of the F&C UK Real Estate Investments Limited web site is the responsibility of the directors; the work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

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

Consolidated Statement of Comprehensive Income

for the year ended 30 June

	Notes	2014 £'000	2013 £'000
Revenue			
Rental income		19,603	13,791
Total revenue		19,603	13,791
Gains/(losses) on investment properties	8	21,253	(4,313)
		40,856	9,478
Expenditure			
Investment management fee	2	(1,707)	(1,242)
Expenses of merger	3	(32)	(746)
Other expenses	3	(1,697)	(1,204)
Total expenditure		(3,436)	(3,192)
Net operating profit before finance costs		37,420	6,286
Net finance costs			
Interest receivable		49	15
Finance costs	4	(6,016)	(4,222)
		(5,967)	(4,207)
Net profit from ordinary activities before taxation		31,453	2,079
Taxation on profit on ordinary activities	5	(540)	(479)
Profit for the year		30,913	1,600
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Net gain on cash flow hedges, net of tax		5,198	3,783
Total comprehensive income for the year, net of tax		36,111	5,383
Basic and diluted earnings per share	7	14.4p	1.2p

All items in the above statement derive from continuing operations.

All of the profit for the year is attributable to the owners of the Company.

The accompanying notes 1 to 21 are an integral part of this statement.

Consolidated Balance Sheet

as at 30 June	Notes	2014 £'000	2013 £'000
Non-current assets			
Investment properties	8	295,387	271,063
		295,387	271,063
Current assets			
Trade and other receivables	10	6,061	6,362
Cash and cash equivalents	11	16,773	5,775
		22,834	12,137
Total assets		318,221	283,200
Non-current liabilities			
Interest-bearing bank loan	12	(109,930)	(112,998)
Interest rate swap	12	(4,776)	(9,888)
		(114,706)	(122,886)
Current liabilities			
Trade and other payables	13	(6,110)	(6,181)
Income tax payable		(377)	(472)
Interest rate swap	12	(4,459)	(4,546)
		(10,946)	(11,199)
Total liabilities		(125,652)	(134,085)
Net assets		192,569	149,115
Represented by:			
Share capital	14	2,309	2,081
Special distributable reserve		170,704	153,929
Capital reserve		22,013	760
Other reserve		(2,457)	(7,655)
Equity shareholders' funds		192,569	149,115
Net asset value per share	15	83.4p	71.7p

The accounts on pages 29 to 50 were approved and authorised for issue by the Board of Directors on 16 October 2014 and signed on its behalf by:

Q Spicer, Director

G M Harrison, Director

The accompanying notes 1 to 21 are an integral part of this statement.

Consolidated Statement of Changes in Equity

for the year ended 30 June 2014

	Notes	Special		Capital Reserve	Other Reserve	Revenue Reserve	Total
		Share Capital £'000	Distributable Reserve £'000				
At 1 July 2013		2,081	153,929	760	(7,655)	–	149,115
Profit for the year		–	–	–	–	30,913	30,913
Other comprehensive gains		–	–	–	5,198	–	5,198
Total comprehensive income for the year		–	–	–	5,198	30,913	36,111
Issue of ordinary shares		228	17,955	–	–	–	18,183
Dividends paid	6	–	–	–	–	(10,840)	(10,840)
Transfer in respect of gains on investment properties		–	–	21,253	–	(21,253)	–
Transfer to revenue reserve		–	(1,180)	–	–	1,180	–
At 30 June 2014		2,309	170,704	22,013	(2,457)	–	192,569

for the year ended 30 June 2013

	Notes	Special		Capital Reserve	Other Reserve	Revenue Reserve	Total
		Share Capital £'000	Distributable Reserve £'000				
At 1 July 2012		1,105	89,445	5,073	(11,438)	–	84,185
Profit for the year		–	–	–	–	1,600	1,600
Other comprehensive gains		–	–	–	3,783	–	3,783
Total comprehensive income for the year		–	–	–	3,783	1,600	5,383
Issue of ordinary shares on merger		976	66,527	–	–	–	67,503
Dividends paid	6	–	–	–	–	(7,956)	(7,956)
Transfer in respect of losses on investment properties		–	–	(4,313)	–	4,313	–
Transfer to revenue reserve		–	(2,043)	–	–	2,043	–
At 30 June 2013		2,081	153,929	760	(7,655)	–	149,115

The accompanying notes 1 to 21 are an integral part of this statement.

Consolidated Cash Flow Statement

for the year ended 30 June

	Notes	2014 £'000	2013 £'000
Cash flows from operating activities			
Net profit for the year before taxation		31,453	2,079
Adjustments for:			
(Gains)/losses on investment properties	8	(21,253)	4,313
Decrease in operating trade and other receivables		301	1,619
Decrease in operating trade and other payables		(71)	(1,646)
Interest received		(49)	(15)
Finance costs		6,016	4,222
		16,397	10,572
Taxation paid		(636)	(177)
Net cash inflow from operating activities		15,761	10,395
Cash flows from investing activities			
Purchase of investment properties	8	(18,812)	–
Capital expenditure	8	(48)	(329)
Sale of investment properties	8	15,789	1,522
Cash transferred on merger		–	658
Interest received		49	15
Net cash (outflow)/inflow from investing activities		(3,022)	1,866
Cash flows from financing activities			
Shares issued (net of costs)		18,183	–
Dividends paid	6	(10,840)	(7,956)
Bank loan interest paid		(1,467)	(698)
Payments under interest rate swap arrangement	4	(4,617)	(3,228)
Bank loan (repaid)/drawn down		(3,000)	4,000
Net cash outflow from financing activities		(1,741)	(7,882)
Net increase in cash and cash equivalents		10,998	4,379
Opening cash and cash equivalents		5,775	1,396
Closing cash and cash equivalents		16,773	5,775

The accompanying notes 1 to 21 are an integral part of this statement.

Notes to the Accounts

for the year ended 30 June 2014

1. Significant accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year, is set out below.

(a) Basis of preparation

(i) Statement of compliance

The consolidated accounts have been prepared and approved in accordance with International Financial Reporting Standards ('IFRS') issued by, or adopted by, the International Accounting Standards Board (the IASB), interpretations issued by the IFRS Interpretations Committee, as adopted by the EU, applicable legal and regulatory requirements of the Companies (Guernsey) Law, 2008 and the Listing Rules of the UK Listing Authority.

(ii) Basis of measurement

The financial statements have been prepared on the historical cost basis except for investment properties and the interest rate swap which are measured at fair value.

(iii) Presentation currency

The notes and financial statements are presented in pounds sterling (presentational currency) and are rounded to the nearest thousand except where otherwise indicated.

(iv) Use of estimates and judgements

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenue and expenses during the period. The nature of the estimation means that actual outcomes could differ from those estimates. Significant estimates and assumptions are made in the valuation of investment properties held. Further information on the valuation, market risk and sensitivity to market changes are detailed in note 1(f) and note 8.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 8.

(v) Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year, except that the following amendments to existing standards have been adopted in the current year:

- In May 2011, the IASB issued IFRS 10 '*Consolidated Financial Statements*'. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard became effective for annual periods beginning on or after 1 January 2013 and the Group concluded that it does not change the companies consolidated within the Group and therefore has no impact on the financial statements as presented.
- In May 2011, the IASB issued IFRS 12 '*Disclosure of Involvement with Other Entities*'. IFRS 12 includes all the disclosures which were previously required by IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. This standard became effective for annual periods beginning on or after 1 January 2013 and has no significant impact on the Group accounts, method of consolidation or disclosures presented.
- In May 2011, the IASB issued IFRS 13 '*Fair Value Measurement*'. IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. This standard became effective for accounting periods beginning on or after 1 January 2013 and requires specific additional disclosures on fair value included in notes 8 and 12. This standard has not materially affected the fair value measurements made by the Group.

Notes to the Accounts (continued)

for the year ended 30 June 2014

1. Significant accounting policies (continued)

- In May 2012, the IASB issued *Annual Improvements to IFRS – the 2009 – 2011 Cycle* – clarifying requirements rather than resulting in substantive changes to current practice. These amendments became effective for annual periods beginning on or after 1 January 2013. The Group re-evaluated existing policies and disclosures as a result of these amendments and concluded that there is no impact on the financial statements.

(vi) New Standards and interpretations not yet adopted

The following new standards have been issued but are not effective for this accounting period and have not been adopted early:

- In November 2009 and October 2010, the IASB issued IFRS 9 '*Financial Instruments*' which represents part of a project to replace IAS 39 '*Financial Instruments: Recognition and Measurement*'. 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 costs. 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 IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and to add new requirements to address the impairment of financial assets and hedge accounting. It is expected IFRS 9 will be effective from 1 January 2018, with the final effective date being determined by the IASB when other parts of IFRS are finalised, but may be applied earlier subject to EU endorsement. The Group is yet to assess IFRS 9's full impact and will also consider the impact of the remaining phases of IFRS 9 when completed by the IASB.
- In October 2012, the IASB issued amendments to IFRS 10 '*Consolidated financial statements*', IFRS 12 '*Disclosure of interests in other entities*' and IAS 27 '*Separate financial statements*' – Investment entities. The amendments define an investment entity and introduce an exception to consolidating particular subsidiaries for investment entities. These amendments require an investment entity to measure those subsidiaries at fair value through profit or loss in accordance with IFRS 9 '*Financial Instruments*' in its consolidated and separate financial statements. The amendments also introduce new disclosure requirements for investment entities in IFRS 12 and IAS 27. These amendments become effective for accounting periods commencing on or after 1 January 2014. The Group does not consider that the future adoption of these amendments, in the form currently available, will have any material impact on the consolidated financial statements as presented.

The impact of the adoption of the above mentioned standards/interpretations on the financial statements of the Group is still being assessed. Other standards and interpretations have been issued by the IASB but they are not considered relevant for the purpose of the Group.

(b) Basis of consolidation

The consolidated accounts comprise the accounts of the Company and its subsidiaries drawn up to 30 June each year. The financial statements of the subsidiaries are prepared for the same accounting period as the parent company, using consistent accounting policies.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

(c) Revenue recognition

Rental income, excluding VAT, arising on investment properties is accounted for in the Consolidated Statement of Comprehensive Income on a straight-line basis over the lease term of ongoing leases. Incentives for lessees to enter into lease agreements are spread evenly over the lease term, even if payments are not made on such a basis. The lease term is the non-cancellable period of the lease together with any further term for which the tenant has the option to continue the lease, where, at the inception of the lease, the Directors are reasonably certain that the tenant will exercise that option.

Per amendments to IAS1, items within 'Other Comprehensive Income' that will be reclassified to profit or loss at a future point in time, for example net gain/loss on available for sale assets must be presented separately from items that will not be reclassified, for example revaluation of properties.

Interest income is accounted for on an accruals basis using the effective interest method.

1. Significant accounting policies (continued)

(d) Expenses

Expenses are accounted for on an accruals basis. The Group's investment management and administration fees, finance costs and all other expenses are charged through the Consolidated Statement of Comprehensive Income.

(e) Taxation

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date. Current income tax relating to items recognised directly in equity is recognised in equity and not in the Consolidated Statement of Comprehensive Income. Positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation are periodically evaluated and provisions established where appropriate.

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are measured at the tax rates that are expected to apply to the period when the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Deferred income tax assets are only recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. As the Directors consider the value of the property portfolio is likely to be realised by sale rather than use over time, and that no charge to Guernsey or United Kingdom taxation will arise on capital gains, no provision has been made for deferred tax on valuation uplifts.

(f) Investment properties

Investment properties consist of land and buildings (principally offices, commercial warehouses and retail property) which are not occupied for use by, or in the operations of, the Group, nor for sale in the ordinary course of business, but are held to earn rental income together with the potential for capital and income growth.

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

After initial recognition, investment properties are measured at fair value, with unrealised gains and losses recognised in the Consolidated Statement of Comprehensive Income. Fair value is based on the open market valuation provided by DTZ Debenham Tie Leung Limited, chartered surveyors, at the balance sheet date using recognised valuation techniques suitably adjusted for unamortised lease incentives and lease surrender premiums. These techniques comprise both the Yield Method and the Discounted Cash Flow Method. In some cases, the fair values are determined based on recent real estate transactions with similar characteristics and location to those of the Group's assets.

The determination of the fair value of investment properties 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. In addition, development risks (such as construction and letting risks) are also taken into consideration when determining the fair value of investment properties under construction. These estimates are based on local market conditions existing at the balance sheet date.

Techniques used for valuing investment property

The Traditional Method converts anticipated future cash flow benefits in the form of rental income into present value. This approach requires careful estimation of future benefits and application of investor yield or return requirements. One approach to value the property on this basis is to capitalise net rental income on the basis of an Initial Yield, generally referred to as the 'All Risks Yield' approach or 'Net Initial Yield' approach.

The Discounted Cash Flow Method involves the projection of a series of periodic cash flows either to an operating property or a development property. To this projected cash flow series, an appropriate, market-derived discount rate is applied to establish an indication of the present value of the income stream associated with the property. The calculated periodic cash flow is typically estimated as gross income less vacancy and collection losses and less operating expenses/ outgoings. A series of periodic net operating incomes, along with an estimate of the reversion/terminal/exit value (which uses the traditional valuation approach) anticipated at the end of the projection period, are discounted to present value. The aggregate of the net present values equals the market value of the property.

Investment properties held under finance leases and leased out under operating leases are classified as investment property and stated at fair value.

Notes to the Accounts (continued)

for the year ended 30 June 2014

1. Significant accounting policies (continued)

(f) Investment properties (continued)

On derecognition, realised gains and losses on disposals of investment properties are recognised in the Consolidated Statement of Comprehensive Income and transferred to the Capital Reserve.

Recognition and derecognition generally occurs on the exchange of signed contracts between a willing buyer and a willing seller.

(g) Investments

Investments in any unquoted indirect property funds are recognised and derecognised on the trade date, and are initially measured at fair value.

Investments in any unquoted indirect property funds are financial instruments and are classified on initial recognition as fair value through profit or loss given that their fair value can be reliably determined based on the criteria set out in IAS 39. Financial assets designated as fair value through profit or loss are measured at subsequent reporting dates at fair value. Accounting standards recognise a hierarchy of fair value measurements for financial instruments which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The classification of financial instruments depends on the lowest significant applicable input, as follows:

Level 1 – Unadjusted, fully accessible and current quoted prices in active markets for identical assets or liabilities. Examples of such instruments would be investments listed or quoted on any recognised stock exchange.

Level 2 – Quoted prices for similar assets or liabilities, or other directly or indirectly observable inputs which exist for the duration of the period of investment. Examples of such instruments would be those for which the quoted price has been suspended, forward exchange contracts and certain other deriving instruments. The interest rate swap entered into to hedge the interest rate on the £100 million bank loan is included in Level 2.

Level 3 – External inputs are unobservable. Value is the Directors' best estimate, based on advice from relevant knowledgeable experts, use of recognised valuation techniques and on assumptions as to what inputs other market participants would apply in pricing the same or similar instrument. All investments in direct property, and any investments in indirect property funds, would be included in Level 3.

The Company measures financial instruments and non-financial assets, such as investment properties, at fair value at each balance sheet date. Fair values of financial instruments measured at amortised cost, if any, are disclosed in note 17. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

(h) Derivative financial instruments

The Group uses derivative financial instruments to hedge its risk associated with interest rate fluctuations. The Group's policy is not to trade in derivative instruments and apply hedge accounting for transactions that meet specified criteria.

Derivative instruments are initially recognised in the Balance Sheet at their fair value. Fair value is determined by the Directors using evidence provided by Lloyds TSB Bank Plc who use a model for the valuation. Transaction costs are expensed immediately.

The effective portion of the gains or losses arising on the fair value of cash flow hedges in the form of derivative instruments are taken directly to other comprehensive income, while any ineffective portion is recognised immediately in the Consolidated Statement of Comprehensive Income. Amounts recognised in other comprehensive income are taken to a reserve created specifically for that purpose, described as the Other Reserve in the Balance Sheet.

On maturity, early redemption and if the forecast transaction is no longer expected to occur, the unrealised gains or losses arising from cash flow hedges in the form of derivative instruments, initially recognised in the Statement of Changes in Equity, are reclassified to the Consolidated Statement of Comprehensive Income.

The Group considers its interest rate swap qualifies for hedge accounting when the following criteria are satisfied:

- The instrument must be related to an asset or liability;
- It must change the character of the interest rate by converting a variable rate to a fixed rate or vice versa;
- It must match the principal amounts and maturity date of the hedged item; and
- As a cash-flow hedge the forecast transaction (incurring interest payable on the bank loan) that is subject to the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect the profit or loss. The effectiveness of the hedge must be capable of reliable measurement and must be assessed as highly effective on an ongoing basis throughout the financial reporting periods for which the hedge was designated.

1. Significant accounting policies (continued)

(i) Share issue expenses

Incremental external costs directly attributable to an equity transaction that would have otherwise been avoided are written off against the special reserve.

(j) Cash and cash equivalents

Cash and cash equivalents consist of cash in hand at bank and short-term deposits in banks with an original maturity of three months or less.

(k) Trade and other receivables

Trade receivables, which are generally due for settlement at the relevant quarter end, are recognised and carried at the original invoice amount less an allowance for any uncollectible amounts. A provision for doubtful debts is made when amounts are more than three months old unless there is certainty of recovery. Bad debts are written off when identified. Reverse lease surrender premiums and other incentives provided to tenants are recognised as an asset and amortised over the period from the date of lease commencement to the earliest termination date.

(l) Interest-bearing bank loans and borrowings

All bank loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of arrangement costs associated with the borrowing. After initial recognition, all interest-bearing loans and borrowings are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any loan arrangement costs and any discount or premium on settlement.

Borrowing costs directly attributable to the acquisition or construction of a qualifying asset are capitalised. Otherwise, they are expensed in the period incurred.

On maturity bank loans are recognised at par, which is equivalent to amortised cost. Bank loans redeemed before maturity are recognised at amortised cost with any charges associated with early redemption being taken to the Consolidated Statement of Comprehensive Income.

(m) Operating lease contracts

The Group leases out its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the leases of its investment properties to lessees as operating leases which recognise rental income over the life of the lease and property.

(n) Reserves

Share capital

Under the Company's Articles of Incorporation, the Company may issue an unlimited number of Ordinary Shares. Subject to the solvency test contained in the Companies (Guernsey) Law, 2008 being satisfied, ordinary shareholders are entitled to all dividends declared by the Company and to all of the Company's assets after repayment of its borrowings and ordinary creditors. Ordinary shareholders have the right to vote at meetings of the Company. All Ordinary Shares carry equal voting rights.

Special distributable reserve

The special reserve is a distributable reserve to be used for all purposes permitted under Guernsey law, including the buy back of shares and the payment of dividends.

The surplus of net proceeds received from the issue of new ordinary shares over the nominal value of such shares, is credited to this account. The nominal value of the shares issued is recognised in share capital.

Capital reserve

The following are accounted for in this reserve:

- gains and losses on the disposal of investment properties
- increases and decreases in the fair value of investment properties held at the year-end.

Other reserve

The following are accounted for in this reserve:

- movements relating to the interest rate swap arrangement accounted for as a cash flow hedge.

Revenue reserve

Any surplus arising from the net profit on ordinary activities after taxation, after adding back capital gains or losses and after payment of dividends, is taken to this reserve, with any deficit transferred from the special distributable reserve.

(o) Business Combinations

The Group acquires subsidiaries that own real estate. At the time of acquisition, the Group considers whether the acquisition represents the acquisition of a business. The Group accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property. More specifically, consideration is made of the extent to which significant processes are acquired and, in particular, the extent of ancillary services provided by the subsidiary.

Notes to the Accounts (continued)

for the year ended 30 June 2014

2. Fees

	2014 £'000	2013 £'000
Investment management fee	1,707	1,242

The fees of any managing agents appointed by the Manager are payable out of the investment management fee. From 11 April 2013, the Group's Manager receives a fee of 0.6 per cent per annum of the Total Assets (prior to 11 April 2013, the fee was 0.7 per cent per annum of Total Assets), including cash held provided that no fee is payable on any cash held in excess of 5 per cent of the net assets of the Group.

From 11 April 2013 a performance fee is payable equal to 15 per cent of the amount by which the total return of the Group's directly held properties exceeds 115 per cent of the total return on the Group's benchmark and multiplied by the Group's total assets. The Group's benchmark for direct property performance is the IPD total return on direct UK commercial property held by the quarterly index in the IPD universe. The performance fee therefore excludes the impact of cash and/or gearing.

The performance fee payable in each financial year is capped at an amount which, when taken with the aggregate base management fee payable in each financial year, equals 0.75 per cent of the average adjusted total assets of the Group. Performance fees in excess of this capped return can be carried forward for up to two subsequent financial years subject to the annual 0.75 per cent cap.

The performance fee is measured over a rolling three year period and the performance fee payable in respect of any one financial year is equal to the total performance fee earned over that three year period less any performance fees already paid in the previous two years. In the event that the amount already paid in the previous two years is in excess of the amount earned over the rolling three year period, such excess shall be repaid to the Group by the Manager. A performance fee is payable in the event of outperformance of the benchmark even if the total return is negative.

The Manager also receives an administration fee, which from 11 April 2013 was rebased to £100,000 per annum. This fee is recalculated from 1 July each year to reflect movements in the consumer price index.

The notice period in relation to the termination of the investment management agreement is six months by either party.

The investment management agreement may be terminated earlier provided that a payment in lieu of notice, equivalent to the amount the Investment Manager would otherwise have received during the notice period, is made.

3. Other expenses

	Year ended 30 June 2014 £'000	Year ended 30 June 2013 £'000
Direct operating expenses of let rental property	733	398
Direct operating expenses of vacant property	259	91
Bad debts	15	43
Valuation and other professional fees	170	165
Directors' fees	131	134
Administration fee payable to the Manager	102	81
Auditor's remuneration for:		
– statutory audit	54	50
– interim review	–	3
– tax services	36	20
Other	197	219
	1,697	1,204

In the year ended 30 June 2013, expenses of the merger disclosed separately within the Consolidated Statement of Comprehensive Income amounted to £746,000. Included within this amount was £95,000 paid to the auditor for tax advice and work performed as the reporting accountant.

The valuers, DTZ Debenham Tie Leung Limited provide valuation services in respect of the property portfolio. From the quarter ending 30 June 2014, the annual fee is equal to 0.0195 per cent of the aggregate value of the property portfolio paid quarterly. Prior to this, an annual fee equal to 0.0225 per cent of the aggregate value of the property portfolio was paid quarterly.

4. Finance costs

	Year ended 30 June 2014 £'000	Year ended 30 June 2013 £'000
Interest on principal loan amount	1,361	670
Interest in respect of rate swap arrangement	4,617	3,228
Write-off of old loan set up costs	–	278
Amortisation of loan set up costs	29	32
Other interest/fees	9	14
	6,016	4,222

5. Taxation

	Year ended 30 June 2014 £'000	Year ended 30 June 2013 £'000
<i>Current income tax</i>		
Current income tax charge	504	400
Adjustment to provision for prior years	36	79
Total tax charge	540	479

A reconciliation of the income tax charge applicable to the results from ordinary activities at the statutory income tax rate to the charge for the year is as follows:

Net profit before taxation	31,453	2,079
UK income tax at an effective rate of 20.0 per cent (2013: 20.0 per cent)	6,291	416
Effects of:		
Capital (gains)/losses on revaluation of investment properties not taxable	(4,251)	863
Income not taxable, including interest receivable	(10)	(3)
Expenditure not allowed for income tax purposes (including set-up costs)	1,330	1,109
Allowable inter company debt financing costs	(2,820)	(1,962)
Deferred tax asset not provided for	(36)	(23)
Adjustment to provision for prior years	36	79
Total tax charge	540	479

The Company is exempt from Guernsey taxation under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989 (as amended) as a category B collective investment vehicle, as has its subsidiaries. A fixed annual tax exemption fee of £600 per company is payable to the States of Guernsey in respect of this. No charge to Guernsey taxation will arise on capital gains. At 30 June 2014, the Group provided for deferred tax at the rate of Guernsey tax (zero per cent) expected to apply on recovery of the carrying amount of its assets through sale.

The Directors conduct the Group's affairs such that management and control is not exercised in the United Kingdom and so that neither the Company nor any of its subsidiaries carries on any trade in the United Kingdom. Accordingly, the Company and its subsidiaries will not be liable for United Kingdom taxation on their income or gains other than certain income deriving from a United Kingdom source, as described below.

The Company and its subsidiaries are subject to United Kingdom income tax at 20 per cent (the rate relevant to non-resident landlords) on rental income arising on the property portfolio after deduction of its allowable debt financing costs and other allowable expenses.

Notes to the Accounts (continued)

for the year ended 30 June 2014

6. Dividends

	Year ended 30 June 2014 £'000	Year ended 30 June 2013 £'000
Dividends on Ordinary Shares:		
Fourth interim for the prior year of 1.25 pence per share paid on 27 September 2013 (2012: 1.8 pence)	2,663	1,989
First interim of 1.25 pence per share paid on 27 December 2013 (2012: 1.8 pence)	2,663	1,989
Second interim of 1.25 pence per share paid on 31 March 2014 (2013: 1.8 pence)	2,663	1,989
Third interim of 1.25 pence per share paid on 30 June 2014 (2013: 1.8 pence)	2,851	1,989
	10,840	7,956

A fourth interim dividend of 1.25 pence per share was paid on 30 September 2014 to shareholders on the register on 12 September 2014. Although this payment of £2,886,000 relates to the year ended 30 June 2014, under IFRS it will be accounted for in the year ending 30 June 2015.

7. Earnings per share

The basic and diluted earnings per Ordinary Share are based on the net profit for the year of £30,913,000 (year ended 30 June 2013: £1,600,000) and on 214,347,657 (year ended 30 June 2013: 132,148,191) Ordinary Shares, being the weighted average number of shares in issue during the year.

8. Investment properties

	Year ended 30 June 2014 £'000	Year ended 30 June 2013 £'000
Freehold and leasehold properties		
Opening market value	276,605	162,820
Capital expenditure and purchase of investment properties	18,860	329
Investment properties transferred on merger	–	116,259
Net sales proceeds	(15,789)	(1,522)
Gains/(losses) on investment properties	21,253	(4,313)
Movement in lease incentive receivable	(339)	3,032
Closing market value	300,590	276,605
Adjustment for lease incentives	(5,203)	(5,542)
Balance sheet carrying value	295,387	271,063

All the Group's investment properties were valued as at 30 June 2014 by qualified professional valuers working in the company of DTZ Debenham Tie Leung Limited ('DTZ'), Chartered Surveyors. All such valuers are chartered surveyors, being members of the Royal Institute of Chartered Surveyors ('RICS'). DTZ completed a valuation of Group investment properties at 30 June 2014 on an open market basis in accordance with the requirements of the Appraisal and Valuation Manual published by the RICS. Fair value is determined on a market value basis in accordance with International Valuation Standards, as set out by the International Valuation Standards Committee. The valuation is prepared on an aggregated ungeared basis. It is also determined using market based evidence, which is the amount for which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction as at the valuation date. The critical assumptions made in valuing the properties are detailed in Note 1(f). The market value of these investment properties amounted to £300,590,000 (2013: £276,605,000), however an adjustment has been made for lease incentives of £5,203,000 (2013: £5,542,000) that are already accounted for as an asset.

The property valuer is independent and external to the Group and the Manager.

8. Investment properties (continued)

The property valuer takes account of deleterious materials included in the construction of the investment properties in arriving at its estimate of open market valuation, when the Manager advises the presence of such materials. In arriving at their estimates of market values, the valuers have used their market knowledge and professional judgement and not only relied on historical transactional comparables.

The Group has entered into leases on its property portfolio as lessor (See note 19 for further information). No one property accounts for more than 7.2 per cent of total assets less current liabilities of the Group. The market values of the properties are shown on page 14. All leasehold investment properties have more than 60 years remaining on the lease term.

There are no restrictions on the realisability of the Group's investment properties or on the remittance of income or proceeds of disposal. However, the Group's investments comprise UK commercial property, which may be difficult to realise, as described in Liquidity risk, note 17. There is also uncertainty in respect of valuations as detailed in Market risk, note 17.

The Group is under no contractual obligations to purchase, construct or develop any investment property. The majority of leases are on a full repairing basis and as such the Group is not liable for costs in respect of repairs, maintenance or enhancements to such properties.

All investment properties are categorised as Level 3 fair values as they use significant unobservable inputs. There have not been any transfers between Levels during the year. Investment properties have been classed according to their real estate sector. Information on these significant unobservable inputs per class of investment property is disclosed below:

Sector	Valuation £'000	Valuation Technique	Significant Assumption	Range*	Weighted Average
Retail	71,790	All Risks Yield	Current Net Rental Income per square foot ('psf') per annum	£(11)-£99	£30
			Estimated Net Rental Value psf per annum	£10-£99	£31
			Net Initial Yield	(9.0%)-18.4%	5.9%
			Equivalent Yield	4.4%-10.6%	5.8%
Retail Warehouse	71,905	All Risks Yield	Current Net Rental Income psf per annum	£0-£35	£14
			Estimated Net Rental Value psf per annum	£7-£28	£15
			Net Initial Yield	0.0%-7.3%	5.3%
			Equivalent Yield	5.6%-7.3%	6.2%
Office	79,695	All Risks Yield	Current Net Rental Income psf per annum	£(1)-£64	£28
			Estimated Net Rental Value psf per annum	£4-£71	£29
			Net Initial Yield	(0.4%)-11.0%	6.6%
			Equivalent Yield	4.2%-10.4%	6.5%
Industrial	77,200	All Risks Yield	Current Net Rental Income psf per annum	£2-£9	£5
			Estimated Net Rental Value psf per annum	£5-£8	£7
			Net Initial Yield	1.7%-9.5%	5.1%
			Equivalent Yield	5.8%-9.5%	6.6%

* The ranges are based on averages per property and include properties which were vacant at the date of valuation. Individual tenancies within properties may fall outside these ranges.

Notes to the Accounts (continued)

for the year ended 30 June 2014

8. Investment properties (continued)

For the majority of properties the fair value was determined by using the market comparable method. This means that valuations performed by DTZ Debenham Tie Leung Limited are based on inputs determined from active markets, adjusted for differences in the nature, location or condition of the specific property. Most valuations are based on initial yield, although equivalent yield may also be taken into consideration. In determining the net initial yield, or capital value per square foot, the valuers may have regard to the terms of any existing lease including current rental values, lease length and covenant strength, along with assumptions regarding estimated rental values, rental growth rates, vacancy rates and void or rent free periods expected after the end of each lease.

The highest and best use of the properties do not differ from their current use.

Sensitivity analysis

The valuations of investment properties are sensitive to changes in the assumed significant unobservable inputs. A significant increase/(decrease) in estimated rental values in isolation would result in a significantly higher/(lower) fair value of the properties. A significant increase/(decrease) in the all risks yield in isolation would result in a significantly (lower)/higher fair value.

There are interrelationships between the yields and rental values as they are partially determined by market rate conditions.

The sensitivity of the valuation to changes in the most significant inputs per class of investment property are shown below:

Estimated movement in fair value of investment properties at 30 June 2014 arising from:	Retail £'000	Retail Warehouses £'000	Offices £'000	Industrial £'000	Total £'000
Increase in rental value by 5%	3,590	3,595	3,985	3,860	15,030
Decrease in rental value by 5%	(3,590)	(3,595)	(3,985)	(3,860)	(15,030)
Increase in initial yield by 0.25%	(2,897)	(3,236)	(2,911)	(3,628)	(12,672)
Decrease in initial yield by 0.25%	3,151	3,556	3,141	4,004	13,852

9. Investment in subsidiary undertakings

The Company owns 100 per cent of the issued ordinary share capital of F&C UK Real Estate Finance Limited ('FREF') which owns 100 per cent of the issued share capital of IRP Holdings Limited ('IRPH') and IPT Property Holdings Limited ('IPTH'). IRPH and IPTH are companies incorporated in Guernsey whose principal business is that of an investment and property company.

In addition to its investment in the shares of IRPH, FREF had lent £128,330,000 to IRPH as at 30 June 2014 (2013: £128,330,000). The principal loan is unsecured and is repayable within 12 months. Interest is payable in arrears at a fixed rate of 7.65 per cent per annum or such other interest rate that may be agreed from time to time between IRPH and FREF.

In addition to its investment in the shares of IPTH, FREF had lent £87,382,000 to IPTH as at 30 June 2014. This loan is unsecured and is repayable within 12 months. Interest is payable quarterly in arrears at a fixed rate of 7.43 per cent per annum or such other interest rate that may be agreed from time to time between IPTH and FREF.

Name of subsidiary undertaking	Class of share	% of class held	Country of incorporation
F&C UK Real Estate Finance Limited	Ordinary	100	Guernsey
IRP Holdings Limited	Ordinary	100	Guernsey
IPT Property Holdings Limited	Ordinary	100	Guernsey

The Company's holding represents all the voting rights of F&C UK Real Estate Finance Limited which holds all the voting rights of IRP Holdings Limited and IPT Property Holdings Limited.

10. Trade and other receivables

	2014 £'000	2013 £'000
Rents receivable (net of provision for bad debts)	520	524
Other debtors and prepayments	5,541	5,838
	6,061	6,362

As at 30 June, the analysis of gross rents receivables per aged analysis is as follows:

	Total £'000	<30 days £'000	30-60 days £'000	60-90 days £'000	90-120 days £'000	>120 days £'000
2014	598	519	–	1	26	52
2013	674	527	(3)	–	–	150

Rents receivable, which are generally due for settlement at the relevant quarter end, are recognised and carried at the original invoice amount less an allowance for any uncollectible amounts. A provision for doubtful debts is made when the amounts are more than 3 months overdue unless there is certainty of recovery. The provision at 30 June 2014 is £78,000 which is the total amount receivable over 120 days per the above table (2013: £150,000).

Included within other debtors and prepayments is the prepayment for rent-free periods recognised over the life of the lease. At 30 June 2014 this amounted to £3,068,000 (2013: £3,165,000). The remaining balance within other debtors and prepayments consists of sundry debtors and the reverse lease surrender premium paid to Banbury, New Malden, Bracknell and St. Albans of £2,135,000 (2013: £2,377,000).

11. Cash and cash equivalents

All cash balances were held in cash, current accounts or in banks on short term deposits with an original maturity of three months or less at the year-end.

12. Bank loan and interest rate swap liability

	2014 £'000	2013 £'000
Facility	115,000	115,000
Opening loan drawn down	112,000	65,000
Loan drawn during the year pre-merger	–	3,000
Loan repaid on merger	–	(68,000)
New loan drawn down on merger	–	111,000
Loan drawn post-merger	–	1,000
Loan repaid	(3,000)	–
Set up costs	(100)	(100)
Accumulated amortisation of set up costs	29	–
Accrued variable rate interest on bank loan	1,001	1,098
Total due	109,930	112,998

The Company has a £115 million facility with Lloyds TSB Bank plc ('Lloyds'), of which £109 million is drawn down.

The bank loan is secured on the entire property portfolio of the Group. Under the bank covenants related to the loan, the Company is to ensure that at all times:

- the loan to value percentage does not exceed 60 per cent (this is defined as the ratio of the loan compared to the aggregate of the open market property valuations plus any cash deposits);
- the qualifying adjusted net rental income for any calculation period (any three month period) is not less than 150 per cent of the projected finance costs for that period;
- no single tenant accounts for more than 20 per cent of the total net rental income; #

Notes to the Accounts (continued)

for the year ended 30 June 2014

12. Bank loan and interest rate swap liability (continued)

- the five largest tenants do not account for more than 45 per cent of total net rental income; #
- no single property accounts for more than 15 per cent of the gross secured asset value (this is defined as the sum of the value of the properties as stated in the latest valuations plus any cash deposits); #
- the five most valuable properties do not account for more than 45 per cent of the gross secured asset value; # and
- the gross secured asset value of any group of properties should not exceed 50 per cent for industrial properties, 60 per cent for offices and 60 per cent for retail properties. #

applicable only on acquisition or disposal of a property, but monitored on an ongoing basis.

The Company met the covenant tests during the year.

Interest rate exposure has been hedged by the purchase of an interest rate swap contract. The hedge has been achieved by matching the notional amount of the swap with £100 million of the loan matching the swap term to the loan term.

Interest on the swap is receivable at a variable rate calculated on the same LIBOR basis as for the bank loan (as detailed below but excluding margins) and payable at a fixed rate of 5.77 per cent per annum.

The fair value of the liability in respect of the interest rate swap contract at 30 June 2014 is £9,235,000 of which £4,459,000 is treated as a current liability (2013: £14,434,000 of which £4,546,000 is treated as a current liability). This is based on the marked to market value. The interest rate swap is classified as Level 2 under the hierarchy of fair value measurements.

Interest accrues on the bank loan at a variable rate, based on LIBOR plus margin and mandatory lending costs and is payable quarterly. The LIBOR rate used is the screen rate available for sterling at 11 am on the date of commencement of each investment period of one month. The margin is 0.45 per cent per annum on a loan to value ratio below 40 per cent. The amount payable by the Company in respect of the variable LIBOR part of the bank loan is fixed at 5.77 per cent through an interest rate swap against £100 million of the loan. The additional £9 million of the loan drawn down pays interest at one month LIBOR plus 45 basis points based on a loan to value ratio below 40 per cent. Interest on the swap is payable quarterly. The interest rate swap expires on 10 January 2017. The loan is repayable on 10 January 2017.

13. Trade and other payables

	2014 £'000	2013 £'000
Rental income received in advance	3,699	3,710
VAT payable	789	886
Manager's fees payable	453	438
Other payables	1,169	1,147
	6,110	6,181

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

14. Share capital account and reserves

	£'000
Allotted, called-up and fully paid	
208,050,491 Ordinary Shares of 1 pence each in issue at 30 June 2013	2,081
Issue of 22,805,048 Ordinary Shares of 1 pence each	228
230,855,539 Ordinary Shares of 1 pence each in issue at 30 June 2014	2,309

Ordinary shareholders have the right to vote at meetings of the Company. All Ordinary Shares carry equal voting rights.

The capital of the Group is managed in accordance with its investment policy, in pursuit of its investment objective, both of which are detailed in the Report of the Directors on page 5 and in note 1(n).

The Company issued 22,805,048 Ordinary Shares during the year (2013: 97,550,491) for a consideration of £18,183,000. The surplus of net proceeds received from the issue of new shares over the par value of such shares is £17,955,000 and is credited to the special distributable reserve.

14. Share capital account and reserves (continued)

Capital Risk Management

The objective of the Company is to provide ordinary shareholders with an attractive level of income together with the potential for income and capital growth from investing in a diversified UK commercial property portfolio. In pursuing this objective, the Board has responsibility for ensuring the Company's ability to continue as a going concern. This involves the ability to issue and buy back share capital within limits set by shareholders in general meeting; borrow monies in the short and long term; and pay dividends out of reserves all of which are considered and approved by the Board on a regular basis. Dividends are set out in note 6 to the accounts and borrowings are set out in note 12.

To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made to the objectives, policies or processes during the years ended 30 June 2014 or 30 June 2013.

15. Net asset value per share

The net asset value per Ordinary Share is based on net assets of £192,569,000 (2013: £149,115,000) and 230,855,539 (2013: 208,050,491) Ordinary Shares, being the number of Ordinary Shares in issue at the year-end.

16. Related party transactions

No Director has an interest in any transactions which are or were unusual in their nature or significant to the nature of the Group.

F&C Investment Business Limited received fees for its services as Investment Manager. Further details are provided in note 2. The total charge to the Consolidated Statement of Comprehensive Income during the year was £1,707,000 (2013: £1,242,000) of which £453,000 (2013: £438,000) remained payable at the year-end. Property management is delegated to F&C REIT Property Management Limited.

The Directors of the Company received fees for their services. Further details are provided in the Remuneration Report on pages 23 and 24 and in note 3. Total fees for the year were £131,000 (2013: £134,000) of which £nil (2013: £nil) remained payable at the year-end.

The Group has no ultimate controlling party.

17. Financial instruments and investment property

The Group's investment objective is to provide ordinary shareholders with an attractive level of income together with the potential for income and capital growth from investing in a diversified UK commercial property portfolio.

Consistent with that objective, the Group holds UK commercial property investments. In addition, the Group's financial instruments comprise cash, receivables, a bank loan, an interest rate swap and payables.

The Group is exposed to various types of risk that are associated with financial instruments. The most important types are credit risk, liquidity risk and market risk (those relating to interest rate changes and pricing movements).

There was no foreign currency risk as at 30 June 2014 or 30 June 2013 as assets and liabilities are maintained in Sterling. The nature and extent of the financial instruments outstanding at the balance sheet date and the risk management policies employed by the Group are detailed below.

Credit risk

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Group.

At 30 June 2014 and 2013, the maturity of the Group's financial assets due within three months were:

Notes to the Accounts (continued)

for the year ended 30 June 2014

17. Financial instruments and investment property (continued)

Financial assets

	2014 Three months or less £'000	2013 Three months or less £'000
Cash	16,773	5,775
Rent receivable	520	524
Other debtors	531	477
	17,824	6,776

In the event of default by an occupational tenant, the Group will suffer a rental shortfall and incur additional costs, including legal expenses, in maintaining, insuring and re-letting the property until it is re-let. The Board receives regular reports on concentrations of risk and any tenants in arrears. The Manager monitors such reports in order to anticipate, and minimise the impact of, defaults by occupational tenants.

The Group has a diversified tenant portfolio. The maximum credit risk from the rent receivables of the Group at 30 June 2014 is £520,000 (2013: £524,000). The maximum credit risk is stated after deducting the bad debt provision of £78,000 (2013: £150,000).

It is the practice of the Group to provide for rental debtors greater than three months overdue unless there is certainty of recovery. At 30 June 2014 the provision was £78,000 (2013: £150,000). Of this amount £nil was subsequently written off and £6,156 has been recovered.

All of the cash is placed with financial institutions with a credit rating of A or above. Bankruptcy or insolvency may cause the Group's ability to access cash placed on deposit to be delayed or limited. Should the credit quality or the financial position of the banks currently employed significantly deteriorate, the Manager would move the cash holdings to another financial institution.

The Group can also spread counterparty risk by placing cash balances with more than one financial institution. The Directors consider the residual credit risk to be minimal.

Liquidity risk

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

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

The Group's liquidity risk is managed on an ongoing basis by the Manager and monitored on a quarterly basis by the Board.

In certain circumstances, the terms of the Group's bank loan (detailed in note 12) entitles the lender to require early repayment, for example if covenants are breached, and in such circumstances the Group's ability to maintain dividend levels and the net asset value attributable to the Ordinary Shares could be adversely affected.

17. Financial instruments and investment property (continued)

At the reporting date, the maturity of the Group's liabilities was:

Financial liabilities 2014

	Three months or less £'000	More than three months but less than one year £'000	More than one year £'000	Total £'000
Bank loan	1,353	1,053	113,177	115,583
Interest rate swap	1,115	3,344	4,776	9,235
Trade and other payables	1,622	–	–	1,622
	4,090	4,397	117,953	126,440

Financial liabilities 2013

	Three months or less £'000	More than three months but less than one year £'000	More than one year £'000	Total £'000
Bank loan	1,439	1,022	117,046	119,507
Interest rate swap	1,136	3,410	9,888	14,434
Trade and other payables	1,585	–	–	1,585
	4,160	4,432	126,934	135,526

Interest rate exposure

Some of the Group's financial instruments are interest-bearing. They are a mix of both fixed and variable rate instruments with differing maturities. As a consequence, the Group is exposed to interest rate risk due to fluctuations in the prevailing market rate.

The tables below set out the carrying amount of the Group's financial instruments that are exposed to interest rate risk.

As at 30 June 2014

	Within 1 year £'000	Between 1-5 years £'000	More than 5 years £'000	Total £'000
<i>Floating rate</i>				
Cash	16,773	–	–	16,773
Bank loan	–	(109,000)	–	(109,000)
<i>Fixed rate</i>				
Interest rate swap	(4,459)	(4,776)	–	(9,235)
	12,314	(113,776)	–	(101,462)

Notes to the Accounts (continued)

for the year ended 30 June 2014

17. Financial instruments and investment property (continued)

As at 30 June 2013

	Within 1 year £'000	Between 1-5 years £'000	More than 5 years £'000	Total £'000
<i>Floating rate</i>				
Cash	5,775	–	–	5,775
Bank loan	–	(112,000)	–	(112,000)
<i>Fixed rate</i>				
Interest rate swap	(4,546)	(9,888)	–	(14,434)
	1,229	(121,888)	–	(120,659)

Interest is receivable on cash at a variable rate. At the year-end rates receivable ranged from 0.0 per cent on current account balances to 0.18 per cent for deposit account balances. Interest is payable on the bank loan at a variable rate of LIBOR plus a margin of 0.45 per cent. The effect of the interest rate swap is to fix interest payable at 5.77 per cent per annum. The effective rate of interest on the loan is 0.98 per cent. Interest on financial instruments classified as floating rate is repriced at intervals of less than one year.

Exposure varies throughout the year as a consequence of changes in the composition of the net assets of the Group arising out of the investment and risk management policies.

In addition, tenant deposits are held in interest-bearing bank accounts. These accounts earn interest at base rate less 0.75 per cent and receive no interest at this time as the base rate is too low. Interest accrued on these accounts is paid to the tenant.

The Group's exposure to interest rate risk relates primarily to the Group's long-term debt obligations. The Group's policy is to manage its interest rate risk using an interest rate swap, in which the Group has agreed to exchange the difference between fixed and variable interest amounts, calculated by reference to an agreed upon notional principal amount. The swap is designed to fix the interest payable on the loan. The interest rate swap covers £100 million of the loan and has the same duration. Interest fixing periods are identical and on this basis the swap contract complies with IAS 39's criteria for hedge accounting.

An increase of 0.5 per cent in interest rates as at the reporting date would have increased net assets by £1.6 million (2013: £1.8 million). A decrease of 0.5 per cent would have reduced net assets by £1.6 million (2013: £1.8 million). These movements principally relate to the valuation of the interest rate swap. These movements are calculated as at 30 June 2014 which may not be reflective of actual future conditions.

Market price risk

The Group's strategy for the management of market price risk is driven by the investment policy as outlined within the Business Model and Strategy on page 5. The management of market price risk is part of the investment management process and is typical of commercial property investment. The portfolio is managed with an awareness of the effects of adverse valuation movements through detailed and continuing analysis, with an objective of maximising overall returns to shareholders. Investments in property and property-related assets are inherently difficult to value due to the individual nature of each property. As a result, valuations are subject to substantial uncertainty. There is no assurance that the estimates resulting from the valuation process will reflect the actual sales price even where such sales occur shortly after the valuation date. Such risk is minimised through the appointment of external property valuers. The basis of valuation of the property portfolio is set out in detail in the accounting policies and note 8.

Any changes in market conditions will directly affect the profit/loss reported through the Consolidated Statement of Comprehensive Income. Details of the Group's investment property portfolio at the balance sheet date are disclosed on page 14. A 10 per cent increase in the value of the investment properties held as at 30 June 2014 would have increased net assets available to shareholders and increased the net income for the year by £29.5 million (2013: £27.1 million); an equal change in the opposite direction would have decreased net assets and decreased the net income by an equivalent amount.

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

17. Financial instruments and investment property (continued)

Fair values of financial assets and liabilities

In the opinion of the Directors there is no material difference between the carrying value and fair value of assets and liabilities that are included in the financial statements on a basis other than fair value.

The Directors and Manager regularly review the principles applied by the property valuers to ensure that they comply with the Group's accounting policies and with fair value principles.

Fair value hierarchy

The following table shows an analysis of the fair values of financial instruments recognised in the balance sheet by level of the fair value hierarchy*:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total fair value £'000
30 June 2014				
Interest rate swap	–	(9,235)	–	(9,235)
30 June 2013				
Interest rate swap	–	(14,434)	–	(14,434)

*Explanation of fair value hierarchy:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2 - The use of a model with inputs (other than quoted prices included in level 1) that are directly or indirectly observable market data.

Level 3 - The use of a model with inputs that are not based on observable market data.

18. Capital commitments

The Group had no capital commitments as at 30 June 2014 (2013: £nil).

19. Lease length

The Group leases out its investment properties under operating leases.

The future income based on the lessor lease length (all break options being exercised) at the year-end was as follows (based on annual rentals):

	2014 £'000	2013 £'000
Less than one year	16,935	19,241
Between one and five years	55,527	62,372
Over five years	71,039	74,789
Total	143,501	156,402

The largest single tenant at the year end accounted for £1.3 million and 9.9 per cent of the current annual rental income (2013: £1.2 million and 6.3 per cent of current annual rental income).

The unoccupied property expressed as a percentage of estimated total rental value was 5.7 per cent at the year-end (2013: 3.2 per cent).

Notes to the Accounts (continued)

for the year ended 30 June 2014

19. Lease length (continued)

The Group has entered into commercial property leases on its investment property portfolio as a lessor. These properties, held under operating leases, are measured under the fair value model as the properties are held to earn rentals. The majority of these non-cancellable leases have remaining non-cancellable lease terms of between 5 and 15 years.

Analyses of the nature of investment properties and leases are provided in 'Portfolio Statistics' on pages 12 and 13.

20. Operating segments

The Board has considered the requirements of IFRS8 'Operating Segments'. The Board is of the opinion that the Group is engaged in a single segment of business, being property investment, and in one geographical area, the United Kingdom, and that therefore the Group has only a single operating segment. The Board of Directors, as a whole, has been identified as constituting the chief operating decision maker of the Group. The key measure of performance used by the Board to assess the Group's performance is the total return of the Group's net asset value, as calculated under IFRS, and therefore no reconciliation is required between the measure of profit or loss used by the Board and that contained in the consolidated financial statements. The portfolio statistics are shown on pages 12 and 13.

21. Post Balance Sheet Events

On 7 July 2014, the Group sold 2-3 Pavilion Buildings, Brighton for £2.5 million (excluding costs) and on 9 July 2014, sold Globe Park, Marlow for £1.71 million (excluding costs).

On 10 July 2014, the Group completed the purchase of an office in High Wycombe for £6.97 million (excluding costs).

As stated in the Chairman's Statement the Board approved the appointment of its existing investment manager, F&C Investment Business Limited ("FCIB") as the Company's alternative investment fund manager and J.P. Morgan Europe Limited as the Company's depositary from July 2014.

Also discussed in the Chairman's Statement, the Board agreed that it would be in the best interests of the Group and Shareholders as a whole for the Group to become a UK Real Estate Investment Trust. The Board will send proposals to shareholders in due course.

Notice of Annual General Meeting

Notice is hereby given that the tenth Annual General Meeting of F&C UK Real Estate Investments Limited will be held at Trafalgar Court, Les Banques, St. Peter Port, Guernsey GY1 3QL on 19 November 2014 at 12 noon for the following purposes.

To consider and, if thought fit, pass the following as Ordinary Resolutions:

1. That the Annual Report and Consolidated Accounts for the year ended 30 June 2014 be received and approved.
2. That the Directors' Remuneration Policy be approved.
3. That the Directors' Annual Report on Remuneration be approved.
4. That Mr C W Sherwell, who retires annually, be re-elected as a Director.
5. That Mr Q Spicer, who retires annually, be re-elected as a Director.
6. That Mr A E G Gulliford, who retires annually, be re-elected as a Director.
7. That Mr V Lall, who retires annually, be re-elected as a Director.
8. That Mr G Harrison, who retires annually, be re-elected as a Director.
9. That Ernst & Young LLP, be re-appointed as Auditor until the conclusion of the next Annual General Meeting.
10. That the Directors be authorised to determine the Auditor's Remuneration.

To consider and, if thought fit, pass the following as Special Resolutions:

11. That the Directors of the Company be and are hereby generally empowered to allot ordinary shares in the Company or grant rights to subscribe for, or to convert securities into, ordinary shares in the Company ("equity securities") for cash, including by way of a sale of ordinary shares held by the Company as treasury shares, or as if any pre-emption rights in relation to the issue of shares set out in the Listing Rules made by the Financial Conduct Authority under part VI of the Financial Services and Markets Act 2000 (as amended) did not apply to any such allotment of equity securities, provided that this power:
 - (a) expires at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or on the expiry of 15 months from the passing of this resolution, whichever is the earlier,

save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement as if the power conferred hereby had not expired; and

- (b) shall be limited to the allotment of equity securities up to an aggregate nominal value of £230,855 being 10 per cent of the nominal value of the issued share capital of the Company, as at 16 October 2014.
12. That the Company be authorised, in accordance with section 315 of the Companies (Guernsey) Law, 2008 (the 'Law'), to make market purchases (within the meaning of section 316 of the Law) of Ordinary Shares of 1p each ("Ordinary Shares") (either for retention as treasury shares or transfer, or cancellation), provided that:
 - (a) the maximum number of Ordinary Shares hereby authorised to be purchased shall be 14.99 per cent of the issued Ordinary Shares on the date on which this resolution is passed;
 - (b) the minimum price which may be paid for an Ordinary Share shall be 1p;
 - (c) the maximum price (exclusive of expenses) which may be paid for an Ordinary Share shall be the higher of (i) 105 per cent of the average of the middle market quotations (as derived from the Daily Official List) for the Ordinary Shares for the five business days immediately preceding the date of purchase and (ii) the higher of the last independent trade and the highest current independent bid on the trading venue which the purchase is carried out; and
 - (d) unless previously varied, revoked or renewed, the authority hereby conferred shall expire on 31 December 2015 or, if earlier, at the conclusion of the Annual General Meeting of the Company to be held in 2015, save that the Company may, prior to such expiry, enter into a contract to purchase Ordinary Shares under such authority and may make a purchase of Ordinary Shares pursuant to any such contract.

By order of the Board

Northern Trust International Fund Administration
Services (Guernsey) Limited
Secretary
PO Box 255, Trafalgar Court, Les Banques
St. Peter Port, Guernsey GY1 3QL

16 October 2014

Notice of Annual General Meeting (continued)

Notes:

1. A member who is entitled to attend, speak and vote at the Meeting is entitled to appoint one or more proxies to attend, speak and vote instead of him or her. More than one proxy may be appointed provided each proxy is appointed to exercise the rights attached to different shares. A proxy need not be a member of the Company.
2. A form of proxy is enclosed for use at the Meeting. The form of proxy should be completed and sent, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, so as to reach Computershare Investor Services (Guernsey) Limited, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY not later than 12 noon on 17 November 2014.
3. The completion and return of the form of proxy will not preclude you from attending the Meeting. If you have appointed a proxy and attend the Meeting in person your proxy appointment will remain valid and you may not vote at the Meeting in person unless you have provided a hard copy notice clearly stating your intention to revoke your proxy appointment to Computershare Investor Services (Guernsey) Limited, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY not later than 12 noon on 17 November 2014. In the case of a member which is an individual, the revocation notice must be under the hand of the appointer or of his attorney duly authorised in writing or in the case of a member which is a company, the revocation notice must be executed under its common seal or under the hand of an officer of the company or an attorney duly authorised. Any power of attorney or any other authority under which the revocation notice is signed (or a notarially certified copy of such power or authority under which the revocation notice is signed) must be included with the revocation notice.
4. To have the right to attend and vote at the Meeting (and also for the purposes of calculating how many votes a member may cast on a poll) a member must first have his or her name entered on the register of members not later than 12 noon on 17 November 2014. Changes to entries in the register after that time shall be disregarded in determining the rights of any member to attend and vote at such Meeting.
5. The Memorandum and Articles of Incorporation and the Directors' letters of appointment will be available for inspection for fifteen minutes prior to the Annual General Meeting and during the meeting itself.
6. As at 16 October 2014, the latest practicable date prior to publication of this document, the Company had 230,855,539 ordinary shares in issue with a total of 230,855,539 voting rights.
7. Any person holding three per cent of the total voting rights in the Company who appoints a person other than the Chairman as his proxy will need to ensure that both he and such third party complies with their respective disclosure obligations under the Disclosure and Transparency Rules.

Shareholder Information

Dividends

Ordinary dividends are paid quarterly in March, June, September and December each year. Shareholders who wish to have dividends paid directly into a bank account rather than by cheque to their registered address can complete a mandate form for the purpose. Mandates may be obtained from Computershare Investor Services (Guernsey) Limited, c/o Queensway House, Hilgrove Street, St. Helier, Jersey JE1 1ES on request. Where dividends are paid directly to shareholders' bank accounts, dividend tax vouchers are sent directly to shareholders' registered addresses.

Share Price

The Company's ordinary shares are listed on the London Stock Exchange. Prices are given daily in the *Financial Times* under "Investment Companies" and in other newspapers.

Change of Address

Communications with shareholders are mailed to the address held on the share register. In the event of a change of address or other amendment this should be notified to Computershare Investor Services (Guernsey) Limited, c/o Queensway House, Hilgrove Street, St. Helier, Jersey JE1 1ES under the signature of the registered holder.

Shareholder Enquiries

Contact Northern Trust International Fund Administration Services (Guernsey) Limited, Trafalgar Court, Les Banques, St. Peter Port, Guernsey GY1 3QL. Additional information regarding the Company may also be found at its website addresses which are:

www.fcre.co.uk
www.fcre.gg

Financial Calendar 2014/15

19 November 2014	Annual General Meeting
December 2014	Payment of first interim dividend
February 2015	Announcement of interim results
February 2015	Posting of Interim Report
March 2015	Payment of second interim dividend
June 2015	Payment of third interim dividend
September 2015	Announcement of annual results
September 2015	Posting of Annual Report
September 2015	Payment of fourth interim dividend

Historic Record

	Total assets less current liabilities £'000	Shareholders' funds £'000	Net asset value per ordinary share p	Ordinary share price p	Premium/(discount) %	Earnings/(loss) per ordinary share p	Dividends paid per ordinary share p	Ongoing charges* %
1 June 2004 (launch)	176,814	106,152	96.0	100.0	4.2	—	—	—
30 June 2005	202,007	124,478	112.6	124.5	10.6	26.2	5.615	1.8
30 June 2006	231,118	157,136	142.2	142.5	0.2	33.1	6.750	1.7
30 June 2007	236,703	176,377	159.6	125.5	(21.4)	18.8	6.876	1.5
30 June 2008	191,773	133,657	121.0	75.0	(38.0)	(30.4)	7.210	1.5
30 June 2009	146,844	80,535	72.9	57.5	(21.1)	(33.4)	7.20	1.9
30 June 2010	162,095	94,328	85.4	84.3	(1.3)	23.6	7.20	1.8
30 June 2011	158,217	91,485	82.8	90.0	8.7	3.3	7.20	1.7
30 June 2012	158,433	84,185	76.2	66.0	(13.4)	2.9	7.20	2.0
30 June 2013†	272,001	149,115	71.7	72.5	1.1	1.2	7.20	2.0
30 June 2014	307,275	192,569	83.4	84.0	0.7	14.4	5.00	1.4

*as a percentage of average net assets (excluding direct property expenses).

† post the merger with ISIS Property Trust.

Warning to shareholders - Beware of Share Fraud

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

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

Corporate Information

Directors (all non-executive)

Quentin Spicer (Chairman)‡
Andrew E G Gulliford§
Christopher W Sherwell
Graham M Harrison†
Vikram Lall*

Registered Office

PO Box 255
Trafalgar Court
Les Banques
St. Peter Port
Guernsey GY1 3QL

Secretary

Northern Trust International Fund Administration
Services (Guernsey) Limited
PO Box 255
Trafalgar Court
Les Banques
St. Peter Port
Guernsey GY1 3QL
Tel: 01481 745001

Alternative Investment Fund Manager ('AIFM') and Investment Manager

F&C Investment Business Limited
80 George Street
Edinburgh EH2 3BU
Tel: 0207 628 8000

Property Manager

F&C REIT Property Management Limited
5 Wigmore Street
London W1U 1PB

Property Valuers

DTZ Debenham Tie Leung Limited
48 Warwick Street
London W1B 5NL

‡Chairman of the Nomination Committee

†Chairman of the Management Engagement Committee

*Chairman of the Audit Committee

§Chairman of the Property Valuation Committee

Website:

www.fcre.co.uk
www.fcre.gg

Auditor

Ernst & Young LLP
Royal Chambers
St Julian's Avenue
St. Peter Port
Guernsey GY1 4AF

Guernsey Legal Advisers

Mourant Ozannes
1 Le Marchant Street
St. Peter Port
Guernsey GY1 4HP

UK Corporate Legal Advisers

Dickson Minto
Broadgate Tower
20 Primrose Street
London EC2A 2EW

Bankers

RBS International
PO Box 62
1 Glatigny Esplanade
St. Peter Port
Guernsey GY1 4BQ

Lloyds TSB Bank PLC
Lochrin Square
92 Fountainbridge
Edinburgh EH3 9QA

Corporate Brokers

Cenkos Securities plc
6.7.8 Tokenhouse Yard
London EC2R 7AS

**Registered Office**

PO Box 255
Trafalgar Court
Les Banques
St. Peter Port
Guernsey GY1 3QL
Tel: 01481 745001

Registrars

Computershare Investor Services (Guernsey) Limited
c/o Queensway House
Hilgrove Street
St. Helier
Jersey
Channel Islands JE1 1ES