Custodian
REIT PLC

Annual Report 2016

WELCOME

R Stratton & Co Bentley, KNUTSFORD

Custodian REIT plc ("Custodian REIT" or "the Company") is a UK real estate investment trust ("REIT") which listed on the main market of the London Stock Exchange on 26 March 2014 ("Admission"). Its portfolio comprises properties predominantly let to institutional grade tenants on long leases throughout the UK and is characterised by smaller lot sizes.

The Company[1] offers investors the opportunity to access a diversified portfolio of UK commercial real estate through a closed-ended fund. By targeting smaller lot size properties, the Company intends to provide investors with an attractive level of income and the potential for capital growth.

For more information, please visit **www.custodianreit.com**

1 References to the Company in the Strategic Report include the Company and its dormant subsidiary, Custodian Real Estate Limited.

INSIDE THIS REPORT

FINANCIAL HIGHLIGHTS AND PERFORMANCE SUMMARY

NAV per share

101.5p

2015:101.3p

Dividend cover

100.8%

2015:103.6%

Amount invested

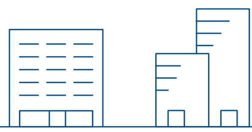
£109.8m

2015: £107.6m

- NAV total return[2] of 6.2% (2015: 7.0%)
- NAV per share up 0.2% to 101.5p (2015: 101.3p)
- Dividends per share[3] up 19.0% to 6.25p (2015: 5.25p)
- Profit after tax up 28.7% to £11.2m (2015: £8.7m)
- Portfolio value of £319.0m (2015: £207.3m)
- £109.8m invested in 29 acquisitions and on-going developments
- Average portfolio net initial yield ("NIY") 6.9% (2015: 7.2%)
- Weighted average unexpired lease term 6.7 years (2015: 7.2 years)
- Occupancy rate[4] 96.8% (2015: 99.2%)
- £77.7m[5] of new equity raised at average premium of 3.45% to NAV
- Completion of a new £45.0m, 12 year, fixed rate loan following the year end

	Year ended 31 March 2016	Period ended 31 March 2015	% change
Return			
NAV total return	6.2%	7.0%	
Share price total return[6]	3.5%	13.3%	
Dividend cover[7]	100.8%	103.6%	
Dividends per share (p)	6.25	5.25	+19.0%
EPRA earnings per share[8] (p)	6.8	5.6	+21.4%
Capital values			
NAV (£m)	255.1	180.0	+41.7%
NAV per share (p)	101.5	101.3	+0.2%
Share price (p)	107.25	109.5	-2.1%
Portfolio value (£m)	319.0	207.3	+53.9%
Premium to NAV per share	5.7%	8.1%	
Net gearing[9]	19.1%	11.4%	
Costs			
Ongoing charges ratio[10] ("OCR")	1.6%	1.7%	
Ongoing charges ratio excluding direct property expenses[11]	1.3%	1.4%	

2 Net Asset Value ("NAV") movement including dividends paid.
3 Dividends paid and approved for the year ended 31 March 2016.
4 Estimated rental value ("ERV") of vacant space divided by the portfolio passing rent plus ERV of vacant space.
5 Before costs and expenses of £1.6m.
6 Share price movement including dividends paid.
7 Profit after tax, excluding net gains on investment properties and exceptional items, divided by dividends paid and approved for the year ended 31 March 2016.
8 Earnings per share ("EPS") excluding gains on investment properties. Basic EPS for the year is 5.5p (2015: 6.0p).
9 Gross borrowings less unrestricted cash, divided by portfolio value.
10 Expenses (excluding exceptional costs and operating expenses of rental property rechargeable to tenants) divided by average quarterly NAV.
11 Expenses (excluding exceptional costs and operating expenses of rental property) divided by average quarterly NAV.



CHAIRMAN'S STATEMENT

"We invested £109.8m on 29 acquisitions and two pre-let developments"

David Hunter,
Chairman

I am pleased to report strong performance by the Company for the year ended 31 March 2016, with profit after tax up 28.7% and EPRA EPS up 21.4% on the prior year. During the year we invested a total of £109.8m on the completion of 29 acquisitions and achieving practical completion on two pre-let developments, funded by £77.7m raised from the issue of new shares and a new £20m term loan. We plan to seek further growth to realise the economies of scale offered by the Company's relatively fixed cost base, while adhering to the Company's investment policy and maintaining the quality of both properties and income.

The Company pays one of the highest fully covered dividends amongst its peer group of listed property investment companies[12]. Despite the fund's rapid growth, we have sought to minimise the impact of 'cash drag' following the issue of new shares by taking advantage of the flexibility offered by the Company's £35m revolving credit facility ("RCF"). I am delighted that the flexibility of the RCF, coupled with proactive asset management of the portfolio and the rapid deployment of cash as it has been raised, has allowed us to increase the target[13] dividend for the year ending 31 March 2017 by 1.6% to 6.35p per share.

In December 2015, the Company raised £44.25m of new equity to fund the acquisition of the £55.1m Indigo Portfolio, as detailed in the Investment Manager's report. This was our largest acquisition to date and marked a step-change in the scale of the business, taking the Company's NAV above the £200m hurdle where the Annual Management Charge falls from 0.9% to 0.75%, reducing the OCR (excluding direct property expenses) from 1.4% to 1.3%.

Since the year end, we have been delighted to announce the successful completion of another placing on 13 May 2016, raising a further £20.98m to pursue a pipeline of attractive investment opportunities, followed by the completion of a new £45m, 12 year, fixed rate loan on 6 June 2016.

Target lot size

We continue to target smaller lot size properties in strong, regional markets where there is less competition from 'institutional' buyers. The successful deployment of new monies on the acquisition of high quality assets at an average NIY of 6.72% during the year highlights the success of this strategy.

The Company has historically targeted lot sizes below £7.5m and has benefitted from a significant NIY advantage as a result. However, it is increasingly clear that the market sets the small versus large threshold at £10m-15m and hence the Board recommends that shareholders approve an increase in the maximum target lot size to £10m at the Company's next Annual General Meeting ("AGM") on 26 July 2016. This increased lot size will only be applied where we can still achieve a beneficial yield margin relative to larger lots and will offer the Investment Manager the flexibility to consider portfolio opportunities that are a strong fit with the Company's investment policy, save for the lot size of one or two assets.

Market

In 2014 and particularly in 2015, excessive investment demand, both domestic and overseas, was focused on London, the South-East and the dominant regional cities. This imbalance of demand over supply resulted in price inflation, which delivered NAV growth to many funds as a result of the exceptional yield compression felt strongly in prime markets, while smaller lot size regional properties were less affected. This enhanced yield advantage supports the Company's attractive level of dividend.

EPRA EPS

6.8p

2015: 5.6p

New equity raised

£77.7m

2015: £47.6m

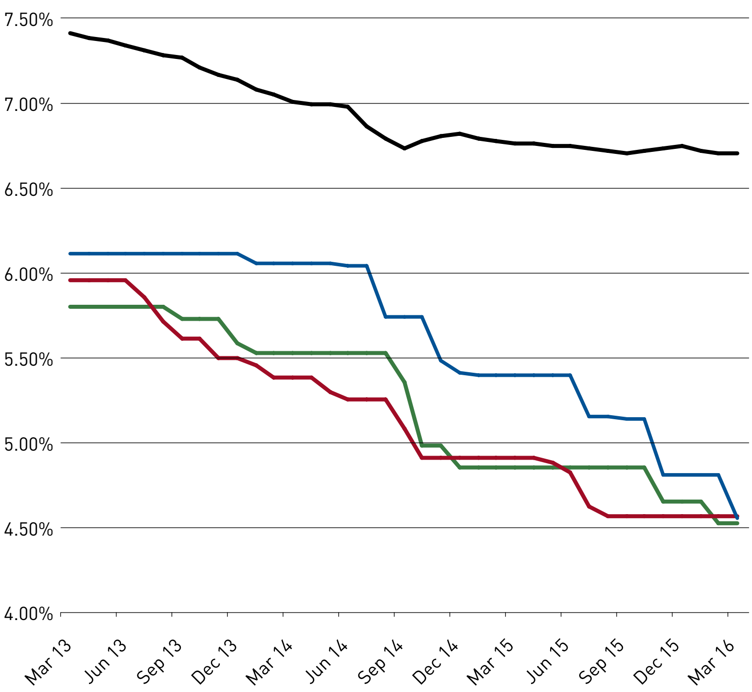
12 Source: Numis Securities Limited.
13 This is a target only and not a profit forecast. There can be no assurance that the target can or will be met and it should not be taken as an indication of the Company's expected or actual future results. Accordingly, shareholders or potential investors in the Company should not place any reliance on this target in deciding whether or not to invest in the Company or assume that the Company will make any distributions at all and should decide for themselves whether or not the target dividend yield is reasonable or achievable.

"A well-diversified portfolio, with long term contractual income from good quality tenants"

Majestic Wines, Home Bargains, JD Wetherspoon, PORTISHEAD

18 See page 18 for **Our portfolio by sector**

Prime yield



Company equivalent yield
JLL prime office yield
JLL prime retail yield
JLL prime industrial yield

Source: LSH and Jones Lang LaSalle ("JLL").

Investment in commercial property was reported to be down 30% in the first quarter of 2016, with circa £170m of net redemptions recorded from open-ended funds and many listed property funds moving to trade at a discount to NAV. Market sentiment has not been helped by uncertainty over the EU referendum and, while it is unclear whether property investment activity will pick up post-referendum, there appears to be a less compelling argument for investing for capital growth, with a shift in emphasis to sustainable income and income growth.

The current market dynamics fit with Custodian REIT's investment strategy and the Company's discretionary investment manager, Custodian Capital Limited ("CCL" or "the Manager"), anticipates more muted capital growth in 2016, with some market 'hotspots' potentially witnessing a decline in values as investment demand weakens and redemptions from the open-ended funds lead to increased supply.

I believe smaller lot size regional property remains good value, with an increasing supply of opportunities coming from institutional vendors and a strong occupational market set to drive rental growth. By exploiting these opportunities we intend to enhance income returns to shareholders and offer more stable total returns in an uncertain environment.

CHAIRMAN'S STATEMENT CONTINUED

Net Asset Value

The Company delivered NAV total return of 6.2% for the year, which was a period of significant new investment where the initial costs (primarily stamp duty) of acquiring 29 new properties diluted NAV total return by circa 2.5%.

	Pence per share	£m
NAV at 1 April 2015	101.3	180.0
Issue of equity (net of costs)	0.6	76.1
	101.9	**256.1**
Valuation movements relating to:		
– Asset management activity	1.7	2.9
– Changes to stamp duty land tax ("SDLT")	(0.5)	(0.8)
– Other valuation movements	0.5	0.9
Valuation uplift	**1.7**	**3.0**
Profit on disposal of investment property	0.0	0.1
Impact of acquisition costs	(2.6)	(5.8)
Net loss on investment properties	**(0.9)**	**(2.7)**
Income	9.5	19.0
Expenses and net finance costs	(2.9)	(5.1)
Dividends paid	(6.1)	(12.2)
NAV at 31 March 2016	**101.5**	**255.1**

In addition to new acquisitions, activity during the year also focused on pro-active asset management, which generated £2.9m of the £3.0m valuation uplift. During the remainder of 2016 we intend to continue our asset management activities and complete the current acquisition pipeline with the deployment of existing debt facilities expected to increase gearing towards our target level of 25% loan to value.

On 1 April 2016 the headline rate of SDLT for commercial property increased from 4% to 5%, with relief for smaller properties via a new SDLT-free band up to £0.15m and a 2% band from £0.15m to £0.25m, replacing the previous flat rate. The increase in headline rate impacts transactions above £1.05m on a sliding scale as lot size increases. The Company's focus on smaller lot size properties, with an average lot size of £2.9m, partially insulated it against the impact of the SDLT changes, which resulted in a 0.25% valuation decrease.

Share price

The Company has traded at a consistent premium to NAV throughout the year with low volatility offering shareholders stable returns. This contrasts with many of the other listed property investment companies which have moved to trading at a discount in Q1 2016. Some commentators predict that recent valuation gains driven by investor demand for large lots and South-East properties will begin to reverse, despite forecast rental growth from occupational demand. I believe Custodian REIT's stable premium to NAV has been a function of both the attractive income yield offered by our progressive dividend policy and the Company's committed shareholder base.

Placing of new ordinary shares

The Company raised £77.7m of new equity during the year, placing 42.5m new shares in November 2015 at a price of 104.2p per share with a further 31.2m new shares issued at a 5% premium to dividend adjusted NAV via an ongoing programme of tap issuance.

Since the year end, the Company has issued a further 27.6m new shares at an average premium of 5% to dividend adjusted NAV. All these share issues have been accretive to NAV and sustained investor demand for the Company's shares is testament to the success of our strategy to date.

Borrowings

Year end gross borrowings of £66.0m represent 19.1% loan to value. The Board's strategy is to:

- Ensure debt facilities keep pace with portfolio growth, targeting gearing of 25% loan to value;
- Facilitate expansion of the portfolio to take advantage of expected rental growth; and
- Reduce risk to shareholders by:
  - Taking advantage of the prevailing low interest rates to secure fixed rate borrowing; and
  - Managing the weighted average maturity ("WAM") of the Company's debt facilities.

In pursuit of these objectives, during the year the Company:

- Agreed a new £20m, ten year loan at a fixed interest rate of 3.935% per annum with Scottish Widows Limited ("SWIP"), repayable in August 2025;
- Increased the limit of the RCF facility from £25m to £35m and extended its expiry date from March 2019 to November 2020; and

- Agreed a new £45m term loan facility ("the New Loan") with SWIP, repayable 12 years from drawdown at a fixed rate of interest. The New Loan completed and was drawn down on 6 June 2016 at an all-in-rate of 2.987% with £20m of these proceeds used to repay the Company's £20m variable rate term loan with Lloyds Bank plc.

The weighted average cost of debt at 31 March 2016 was 3.13% with a WAM of 5.2 years. Completion of the New Loan and repayment of the existing £20m term loan increased the WAM to 11.0 years, with 65% of the Company's debt facilities now at a fixed rate of interest.

Investment Manager

The performance and fees payable to the Investment Manager are reviewed each year by the Management Engagement Committee. The Board is pleased with the progress and performance of the Investment Manager, particularly the timely deployment of new monies, while at the same time securing the earnings required to pay fully covered dividends in line with target.

Dividends

The Company has paid four interim dividends during the year, totalling 6.25p per share. In the absence of unforeseen circumstances, the Board believes the Company is well placed to meet its target of paying further quarterly dividends, fully covered by income, to achieve an annual dividend of 6.35p per share for the current financial year.

Income is a major component of the Company's total return and the Board is committed to growing the dividend sensibly, at a rate which remains fully covered by net rental income but does not inhibit the flexibility of the Company's investment strategy. To provide greater flexibility over future dividend policy, in August 2015 the Company's share premium account of £181.5m was cancelled and transferred to distributable reserves.

Governance

The Company is committed to the principles of good corporate governance for which the Board is accountable to shareholders. Non-audit fees paid to the Company's auditor, Deloitte LLP, during the year of £0.6m were significantly higher than the statutory audit fees of £0.1m. This was due to Deloitte Real Estate acting for the Company on the acquisition of the Indigo Portfolio, in line with normal market practice when a property firm brings a new opportunity to a prospective buyer.

The Audit Committee reviewed the proposed appointment and following careful consideration, resolved that the independence of Deloitte LLP's statutory audit would not be impaired by the engagement and the appointment of Deloitte Real Estate was approved. Subsequently, Deloitte LLP has announced its intention to sell parts of Deloitte Real Estate, which we expect to reduce any potential conflicts of interest that might arise with its auditing division in the future.

Outlook

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

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

David Hunter
Chairman
6 June 2016

DHL Global Fowarding, GLASGOW AIRPORT

INVESTMENT MANAGER'S REPORT

"Targeting income with low gearing in a well-diversified regional portfolio"

Richard Shepherd-Cross,
Investment Manager

Portfolio value

£319.0m

2015: £207.3m

Dividend cover

100.8%

2015: 103.6%

Reporting on the UK property market is often focused on London, not least because it makes up a significant proportion of the total commercial property investment market. However, it is important to look through the headlines to understand what is really driving returns from this very varied asset class.

It appears the start of 2016 marked a watershed in recent attitudes to UK commercial property. In January many mainstream listed property companies saw a dramatic fall in their share price, many property investment companies saw their shares fall to a discount to NAV and the open-ended property funds witnessed significant net outflows of capital after three years of positive net inflows.

This shift in attitude might be due in part to the uncertainty of 'Brexit' or the perceived end of a cycle, but questioning whether or not it is appropriate to call time on commercial property investment is too simplistic. Property is a diverse asset class and its investment performance is driven by myriad different dynamics. Furthermore, it might be considered hasty to ignore a high yielding asset class in a largely low return environment, or to conform to a short-term change in sentiment when assessing an asset class that performs well over the long-term.

UK commercial property returns in 2015 were skewed by significant cash inflows chasing a capital growth story that was particularly focused on the prime and central London markets. The capital growth witnessed was largely a result of a self-fulfilling prophecy, in so far as the pressure on fund managers to invest the capital that swung into property in itself caused price inflation, which delivered the lion's share of total return. However, this phenomenon was always going to be short-term and recent out-flows of capital have shown this to be the case.

Meanwhile, the real commercial property story of the last two years has been the return to health of the occupational market. In office and industrial markets a lack of supply following seven years of minimal speculative development is pushing vacancy rates to all-time lows and driving rental growth. Low vacancy rates, which are also a feature of the retail warehouse sector, enhance cash flows from investment portfolios and support dividend cover.

We believe the key determinants of return and the sustainability of returns in 2016 are likely to be income and income growth, both of which are driven by the occupational market dynamics described above, rather than flows of capital into the investment market. As a result, I expect rental growth to offer Custodian REIT the potential for further dividend growth and sustainable capital growth over time.

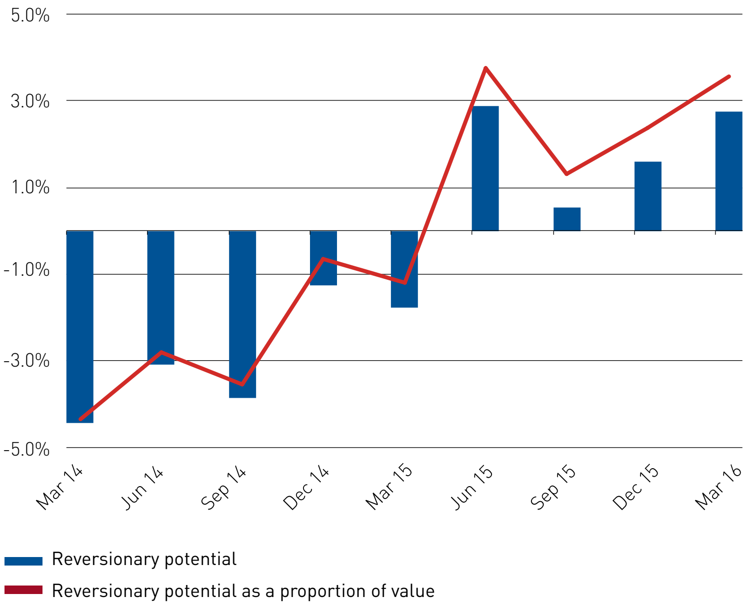
The occupational market story is particularly resonant in smaller lot size regional property. As the majority of fund managers set a minimum target lot size for individual assets of £10m-15m, market pricing of smaller lots has been more stable, having not experienced the excess demand pressure seen in the broader investment market. Accordingly, returns have been more closely linked to the underlying occupational market performance, and across the Custodian REIT portfolio, we are witnessing rental growth and low vacancy rates, with the portfolio moving from a position of over-rent to one of reversionary potential over the last two years.

“Smaller lot size regional property remains good value”

Semcon, WARWICK

18 See page 18 for **Our portfolio by sector**

Portfolio reversionary potential



Source: LSH Company valuation data.

Activity

We were delighted to complete £66.7m of acquisitions in the last quarter of the financial year, bringing total investment in the 12 months to £109.8m. The most significant transaction during the year was in January 2016 when the Company completed the £55.1m off-market acquisition of nine of the 11 properties in the Indigo Portfolio following a £44.25m equity issue. The Indigo Portfolio was described as the ‘target portfolio’ in the Company’s November 2015 prospectus. The nine properties acquired had a passing rent of £3.68m reflecting a NIY of 6.32%, with an expected reversionary yield of 6.89%. Between exchange and completion the Company sub-sold the remaining two properties in the Indigo Portfolio, comprising an industrial unit in Kingston upon Thames and three shops with offices above in Richmond at prices of £5.8m and £8.6m respectively, reflecting a blended NIY of less than 5%.

This acquisition maintained the quality of property that we demand and demonstrated our ability to secure exclusive opportunities and deploy cash ahead of expected timeframes. Despite incurring significant acquisition costs during the year, NAV has increased and the portfolio profile has strengthened in terms of diversification of tenant, sector and lease break/expiry. In addition, the portfolio’s rental growth potential has been enhanced as a result of these acquisitions.

INVESTMENT MANAGER'S REPORT
CONTINUED

GUILDFORD

"The Portfolio is an excellent fit with our investment strategy, comprising smaller lot size, good quality, secondary office, retail and industrial assets diversified by tenant and region"

Richard Shepherd-Cross
Investment Manager

WINNERSH

EDINBURGH

ACQUISITION OF THE INDIGO PORTFOLIO

Purchase price

£55.1m

Average lot size

£6.1m

Number of assets

9

The Indigo Portfolio comprises four retail sites in Colchester, Guildford, Portsmouth and Winnersh, three industrial properties in Chepstow, Redditch and Warrington, and two offices in Edinburgh and West Malling, with an average lot size of £6.1m. Occupiers include House of Fraser, Tesco, Reiss, Poundworld, Regus, Amco Services, Laura Ashley, H Samuel, Pets at Home and Wickes.

The Indigo Portfolio represents nine of the 11 properties in the 'Target Portfolio' described in the Company's November 2015 prospectus, with the Company having sub-sold the remaining two properties in the Target Portfolio, comprising an industrial unit in Norbiton and three shops with offices above in Richmond at prices of £5.8m and £8.6m respectively, reflecting a blended net initial yield of sub 5%.

The Portfolio's current passing rent of £3.68m reflects a net initial yield of 6.32%, with an expected reversionary yield of 6.89%. Following acquisition of the Indigo Portfolio, the Company's average weighted unexpired lease term was 6.8 years.

The purchase price of £55.1m was funded using the Company's existing cash and debt facilities, following an issue of new shares in December 2015, which raised £44.25m (before costs and expenses). The Company's net borrowings following the acquisition were 20.7% loan to value.

Investment objective

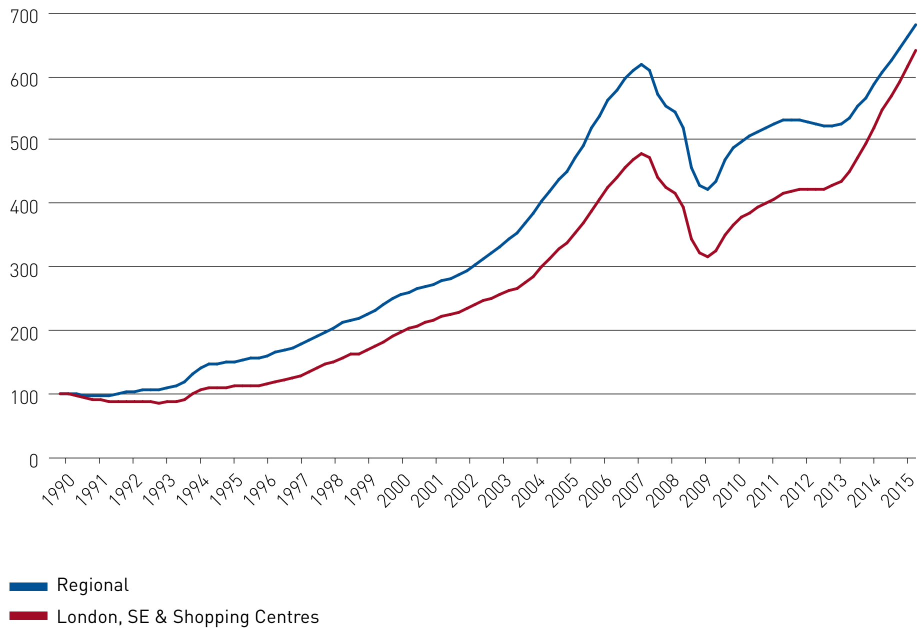
The Company's key objective is to provide shareholders with an attractive level of income by maintaining the high level of dividend, fully covered by earnings, with a conservative level of gearing. I am delighted we have achieved this, with earnings providing 101% cover to the proposed total dividend for the year of 6.25p per share, with a gearing ratio of 19.1% at the year end. As a result of the fund's growth and consequential reduction in OCR, the Board has increased the target[14] dividend for the new financial year to 6.35p per share.

We continue to pursue a pipeline of new investment opportunities with the aim of deploying the Company's undrawn debt facilities up to the conservative gearing target of 25% loan to value. At the current cost of debt we believe this strategy can improve dividend cover as gearing increases towards the target level.

We expect to see redemptions from the open-ended funds create an increased pipeline of suitable opportunities and believe this will enhance our ability to acquire additional properties that meet the Company's investment criteria and improve the portfolio mix.

We remain committed to a strategy focused on regional property and expect to see long-term total return out-performance for regional UK property assets of less than £10m versus London and the South-East. We believe the reason for the historic total return out-performance of regional property illustrated in the chart below is a result of higher yields. As income return is the majority component of the Company's total return, the compound effect of higher recurring income is to deliver superior long-term performance. Total return on property in London and the South-East has out-performed over the last three years due to the significant yield compression that has been driven by extraordinary flows of capital into this market. We are confident that the return of rental growth, coupled with sustainable valuations, will maintain regional property's long-term out-performance credentials.

Weighted average total return index for UK properties less than £10m



Source: IPD.

14 This is a target only and not a profit forecast. There can be no assurance that the target can or will be met and it should not be taken as an indication of the Company's expected or actual future results. Accordingly, shareholders or potential investors in the Company should not place any reliance on this target in deciding whether or not to invest in the Company or assume that the Company will make any distributions at all and should decide for themselves whether or not the target dividend yield is reasonable or achievable.

INVESTMENT MANAGER'S REPORT
CONTINUED

Portfolio balance

The portfolio is split between the main commercial property sectors, in line with the Company's objective to maintain a suitably balanced investment portfolio, but with a relatively low exposure to office and a relatively high exposure to industrial and to alternative sectors, often referred to as 'other' in property market analysis. The current sector weightings are:

Sector	Valuation 31 March 2016 £m	Valuation movement £m	Valuation movement %	Weighting by income 31 March 2016	Weighting by income 31 March 2015
Industrial	123.2	4.0	3.4	39%	40%
Retail	92.0	(1.4)	(1.5)	28%	27%
Other[15]	59.8	0.6	1.0	18%	17%
Office	44.0	(0.2)	(0.5)	15%	16%
Total	**319.0**	**3.0**	**1.0**	**100%**	**100%**

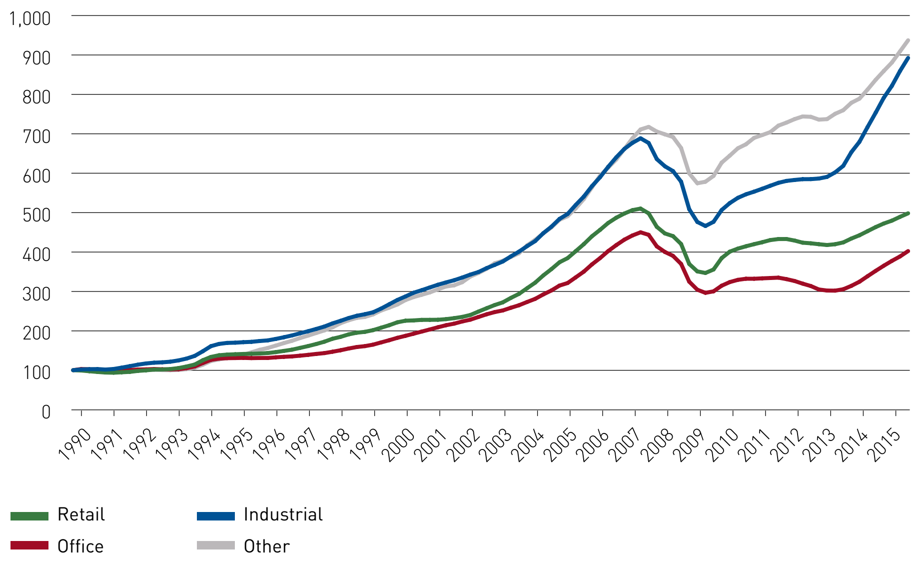
The industrial and 'other' sectors have historically generated the highest total return for sub-£10m properties, as illustrated by the Investment Property Databank ("IPD") data below. I believe the fund's current weightings towards those sectors positions the Company to deliver competitive long-term total returns.

The 'other' sector has proved to be an out-performer over the long-term. While outside the core sectors of office, retail and industrial, the 'other' sector offers diversification of income without adding to portfolio risk, containing assets that are considered mainstream, but which typically have not been owned by institutional investors.

Office rents are growing strongly and supply is constrained by a lack of development and the extensive conversion of secondary offices to residential, making returns very attractive.

We were pleased to increase exposure to the office sector through the recent Indigo Portfolio acquisition. However, the Company's relatively low exposure to the office sector is a long-term strategic decision rather than a short-term comment on the state of the office market. We are conscious that obsolescence can be a real cost of office ownership, which can hit cash flow and is at odds with the Company's relatively high target dividend.

Indexed total return by sector – regional UK property less than £10m



Source: IPD.

15 Includes car showrooms, petrol filling stations, children's day nurseries, restaurants and hotels.

Similar to the office market, lack of supply and very limited speculative development is driving rental growth in the industrial sector as demand exceeds supply. As industrial property is less exposed to obsolescence this sector remains a very good fit with the Company's strategy.

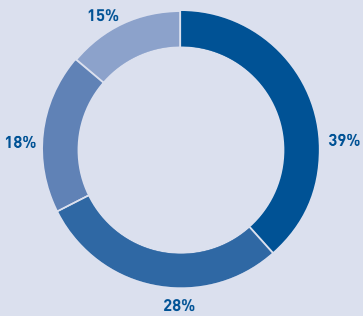
In both regional office and industrial markets passing rents are, in many cases, 20% below the levels of rent required to make new development viable. This low level of rent limits supply and leads to rental growth as the need for new space forces tenants to accept higher rents.

Retail is split between high street and out-of-town retail (retail warehousing). On the high street strong comparison retail pitches in dominant regional towns continue to show very low vacancy rates and offer stable long-term cash flow, with the opportunity for rental growth. We are also witnessing rental growth in some smaller market towns where rents over-corrected in the downturn. It would be wrong to deduce from the failure of BHS and Austin Reed that high street retailing is dead and buried. Both of these retailers had structural problems, some of which will be much debated in the press, but it is important to remember that shopping remains the nation's favourite pastime. Our high streets are constantly evolving and remain an essential element of multi-channel retailing.

Retail warehousing is witnessing close to record low vacancy rates as a restrictive planning policy and lack of development combine with retailers' requirements to offer large format stores, free parking and 'click and collect' to consumers.

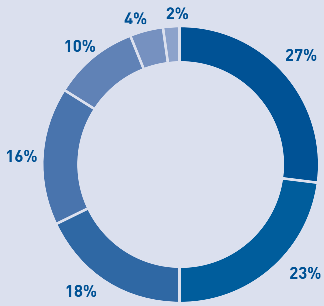
For details of all properties in the portfolio please see www.custodianreit.com/property/portfolio.php.

SECTOR SPLIT BY INCOME



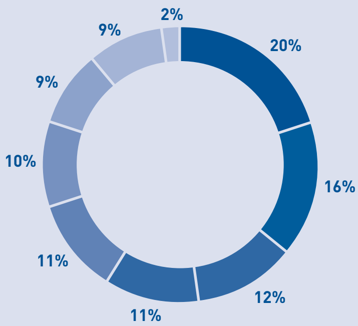
Industrial	39%
Retail	28%
Other	18%
Office	15%

OTHER SECTOR – SUB-SECTOR SPLIT



Motor Trade	27%
Leisure	23%
Restaurant	18%
Trade Counter	16%
Hotel	10%
Nursery	4%
Residential	2%

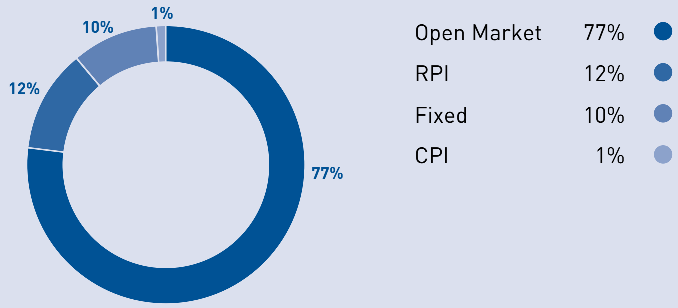
REGIONAL SPLIT BY INCOME



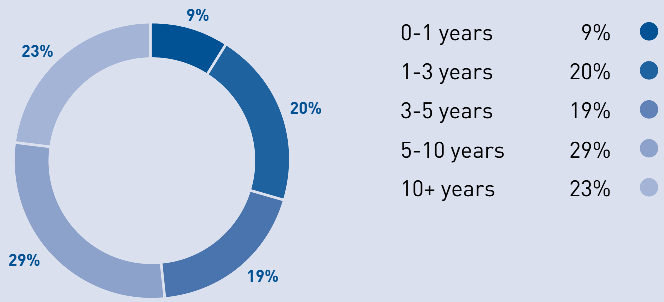
South-East	20%
West Midlands	16%
East Midlands	12%
North-West	11%
Eastern	11%
Scotland	10%
North-East	9%
South-West	9%
Wales	2%

INVESTMENT MANAGER'S REPORT CONTINUED

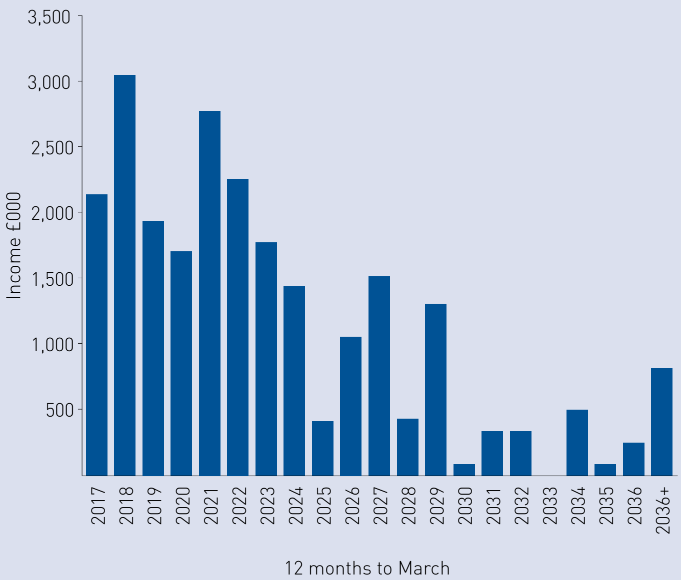
RENT REVIEW ANALYSIS



INCOME EXPIRY



LEASE EXPIRY PROFILE



Asset management

During the year we focused on proactively managing the portfolio to enhance income and maintain the weighted average unexpired lease term ("WAULT"). At 31 March 2016 the portfolio's WAULT was 6.7 years (2015: 7.2 years), ahead of the Company's objective of maintaining a WAULT of over five years to the first lease break or lease expiry across the portfolio.

Successful asset management strategies including rent reviews, new lettings, lease extensions and the retention of tenants beyond their contractual break clauses have helped to minimise the natural decrease in WAULT and offset the impact on valuations of acquisition costs and the recent increase in SDLT.

Key asset management initiatives include:

- Extending Pizza Hut UK Limited's lease at Triangle Retail Park, Leicester with expiry moving from June 2018 to June 2033, subject to a tenant-only break option in June 2028, and rent increasing from £82,250 per annum to £104,512 per annum from June 2018;
- Extending leases at the 40 St. David Street and Cardinal House offices in Leeds, occupied by Enact Direct Legal Solutions (the Company's largest tenant by income representing 2.7% of the rent roll) by five years to expire in December 2023. Both leases have also been assigned to First Title Limited, Enact Direct Legal Solutions' UK parent company, significantly strengthening the covenant; and
- Completion of a comprehensive refurbishment of the Tilbrook 44 distribution unit in Milton Keynes for £750,000 (net of early exit premium and dilapidations), acquired in January 2015 in the knowledge of the tenant having served notice to exit. Exit rent has grown from £250,000 to an expected £275,000 with exit yield hardening from circa 7.25% to 6.75%, giving an expected £675,000 valuation impact once let.

We are in active discussions with more than 20 tenants across the portfolio regarding various asset management initiatives, including new lettings, lease renewals, lease extensions, rent reviews, lease surrenders, refurbishment, development or a combination of the above.

Pizza Hut, LEICESTER

Lease extension

15 years

Rental increase

27%

Valuation uplift

£0.4m

Enact, LEEDS

Lease extension

5 years

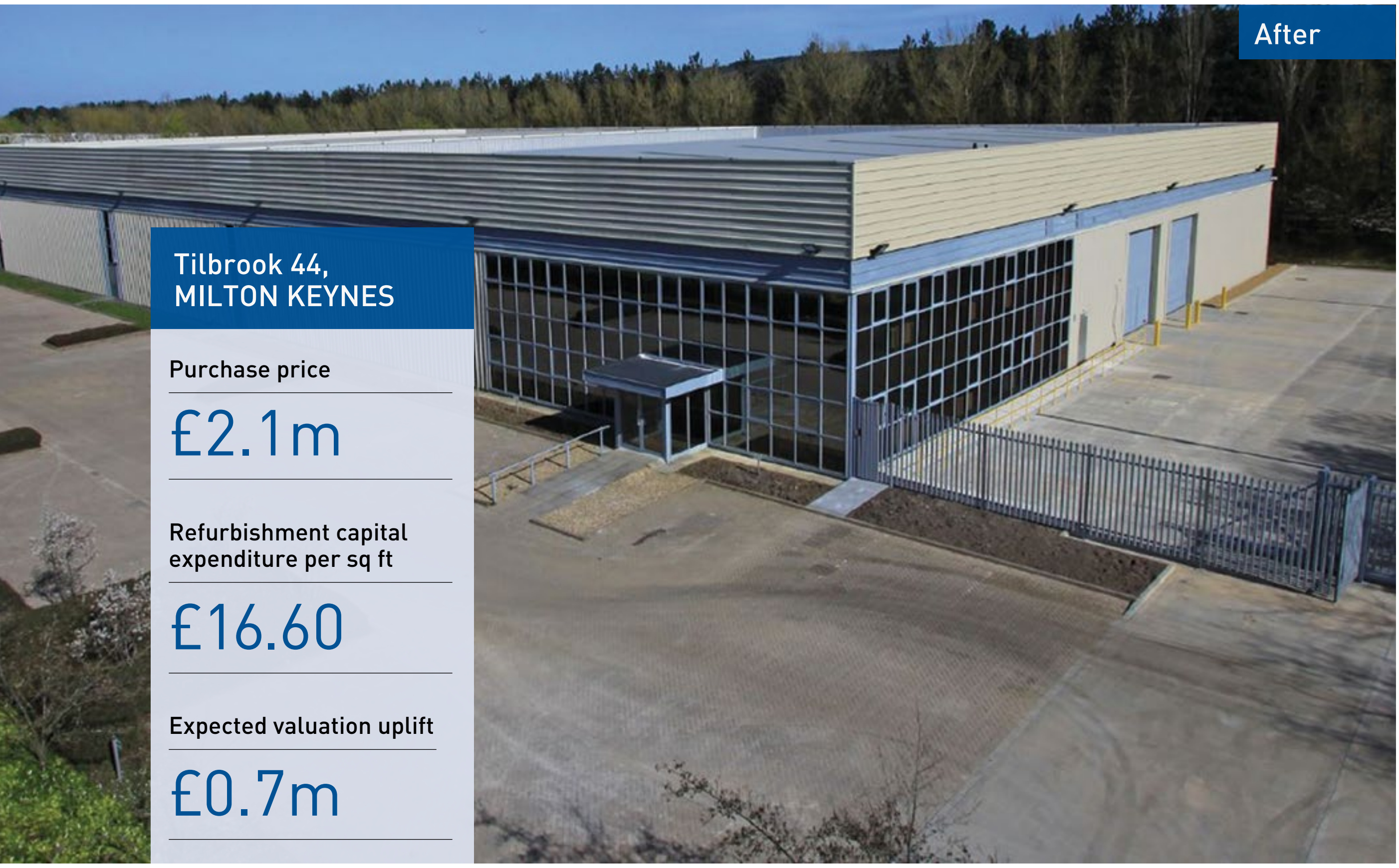
Improved tenant covenant

First Title

Valuation uplift

£0.8m

INVESTMENT MANAGER'S REPORT CONTINUED



Tilbrook 44, MILTON KEYNES

Purchase price

£2.1m

Refurbishment capital expenditure per sq ft

£16.60

Expected valuation uplift

£0.7m

Portfolio risk

We have managed the portfolio's income expiry profile through successful asset management activities and by acquiring long leases, such that the WAULT of 6.7 years is ahead of target, with only 48% of income expiring within five years at 31 March 2016. Short term income at risk is a relatively low proportion of the portfolio's income, with only 29% expiring in the next three years (9% within one year).

Income expiry	31 March 2016	31 March 2015
0-1 years	9%	6%
1-3 years	20%	15%
3-5 years	19%	20%
5-10 years	29%	35%
10+ years	23%	24%
Total	**100%**	**100%**

The portfolio's exposure to risk is reduced by 23% of income benefitting from either fixed or indexed rent reviews and there is increasingly strong evidence of open market rental growth across all sectors.

Outlook and pipeline

Over the remainder of this financial year we intend to continue our asset management activities and complete on the current acquisition pipeline, with the aim of deploying debt facilities to increase gearing towards the target level of 25%. We expect recent asset management initiatives to improve the WAULT of the portfolio, with tenants keen to agree lease extensions or to waive their options to break, enhancing the rent roll as increases are agreed at review or renewal. We also have a strong committed pipeline including pre-let development funding projects totaling £3.4m which, once complete, will further improve the portfolio's WAULT.

The smaller lot size, regional market has not yet seen the price inflation which has been a feature of London and large lot sizes, so it is still possible to acquire properties with strong investment credentials. We are keen to capitalise on the strength of the occupational market and are seeing a robust stream of opportunities consistent with our investment strategy. We are actively considering £25m–£50m of opportunities that maintain a threshold level of quality in building, location and tenant and expect this pipeline to improve if redemptions from the open-ended funds lead to an increasing flow of sales.

Custodian REIT has an investment strategy targeting income with low gearing in a well-diversified regional portfolio. We believe it is still possible to identify 'value' in the market, despite recent price inflation, by targeting properties where provable rental growth will underpin long term capital growth. I am confident this strategy can deliver enhanced income cover to the Company's target dividend in the years ahead and provide the stable long term returns demanded by our shareholders.

Richard Shepherd-Cross
for and on behalf of Custodian Capital Limited
Investment Manager
6 June 2016

OUR PORTFOLIO

Portfolio value

£319.0m

2015: £207.3m

Separate tenancies

228

2015: 135

Occupancy rate

96.8%

2015: 99.2%

Assets

113

2015: 85

WAULT

6.7 yrs

2015: 7.2 yrs

Net initial yield

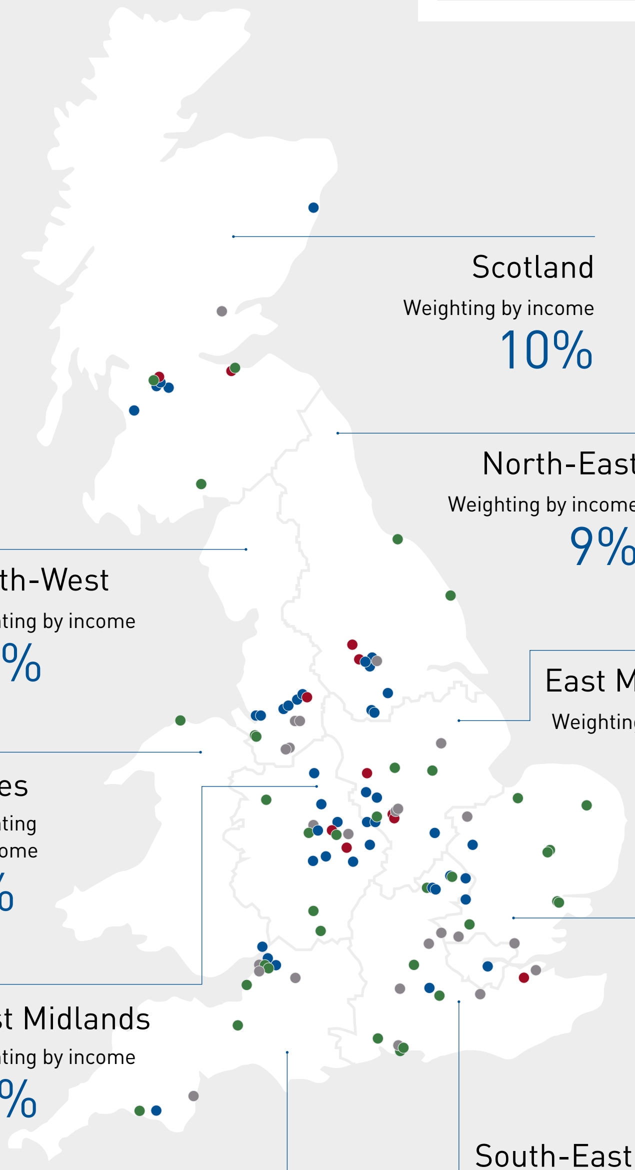
6.9%

2015: 7.2%

PROPERTY LOCATIONS

KEY

Sector	No. of assets
Industrial	44
Retail	36
Office	10
Other	23



Scotland
Weighting by income
10%

North-East
Weighting by income
9%

North-West
Weighting by income
11%

East Midlands
Weighting by income
12%

Wales
Weighting by income
2%

Eastern
Weighting by income
11%

West Midlands
Weighting by income
16%

South-East
Weighting by income
20%

South-West
Weighting by income
9%

"The sector has proved to be an out-performer over the long-term"

Travelodge, PORTISHEAD

18 See page 18 for **Our portfolio by sector**

OUR PORTFOLIO BY SECTOR

Industrial

1


2


3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15

1.	**Chesford**	JTF Wholesale
2.	**Ashby**	Teleperformance
3.	**Salford**	Restore
4.	**Avonmouth**	Superdrug
5.	**Doncaster**	Portola Packaging
6.	**Coventry**	Royal Mail
7.	**Kilmarnock**	Royal Mail
8.	**Stone**	Revlon International
9.	**Redditch**	Amco Services
10.	**Redditch**	Sapa Profiles
11.	**Biggleswade**	Turpin Distribution Services
12.	**Normanton**	Yesss Electrical
13.	**Milton Keynes**	Massmould
14.	**Cannock**	Hellermann Tyton
15.	**Bristol**	BSS

OUR PORTFOLIO BY SECTOR
CONTINUED

Industrial continued


16


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21

16.	**Nuneaton**	DX Network Services
17.	**Plymouth**	Sherwin-Williams
18.	**Manchester**	Unilin Distribution
19.	**Cambuslang**	Brenntag
20.	**Oldbury**	Sytner
21.	**Bedford**	Elma Electronics
22.	**Southwark**	Constantine
23.	**Aberdeen**	DHL Express
24.	**Bedford**	Emerson Network Power
25.	**Warwick**	Semcon
26.	**Hamilton**	Ichor Systems
27.	**Erdington**	West Midlands Ambulance Service NHS Trust
28.	**Sheffield Parkway**	Synergy Health
29.	**Farnborough**	Triumph Structures

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OUR PORTFOLIO BY SECTOR CONTINUED

Industrial continued


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30.	**Liverpool, Speke**	Powder Systems
31.	**Coalville**	MTS Logistics
32.	**Castleford**	Bunzl
33.	**Liverpool, Speke**	DHL International
34.	**Kettering**	Sealed Air
35.	**Huntingdon**	PHS Group
36.	**Warrington**	EAF Supply Chain Synertec
37.	**Glasgow**	DHL Global Forwarding
38.	**Normanton**	Acorn Web Offset
39.	**Sheffield**	River Island Clothing Andrew Page
40.	**Chepstow**	Multi-let
41.	**Hinckley**	Multi-let
42.	**Leeds**	Sovereign Air Movement

OUR PORTFOLIO BY SECTOR
CONTINUED

Retail

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1.	**Colchester**	Poundland Savers
2.	**Colchester**	Laura Ashley H Samuel Lush
3.	**Birmingham**	Tesco Greggs Subway Coral
4.	**Southampton**	URBN
5.	**Norwich**	Specsavers
6.	**Guildford**	Reiss House of Fraser
7.	**Bedford**	Waterstones
8.	**Scarborough**	Waterstones
9.	**Hinckley**	WH Smith
10.	**Llandudno**	WH Smith
11.	**Colchester**	Burton/Dorothy Perkins Leeds Building Society
12.	**Nottingham**	The White Company
13.	**Shrewsbury**	Cotswold Outdoor
14.	**Glasgow**	Greggs

OUR PORTFOLIO BY SECTOR CONTINUED

Retail continued


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15. King's Lynn	Top Man
16. Portsmouth	Game Retail
	Poundland
	Your Phone Care
	Sportswift
17. Edinburgh	Phase Eight
18. Taunton	Wilko Retail
19. Bury St Edmunds	The Works
20. Dumfries	Iceland Foods
21. Southsea	Portsmouth City Council
	Superdrug
22. St Albans	EE
23. Chester	Kuoni Travel
	Aslan Jewellery
24. Chester	Whistles
25. Bury St Edmunds	Savers Health & Beauty
26. Cheltenham	Done Brothers (t/a Betfred)
27. Cirencester	Framemakers Galleries
	The Danish Wardrobe
28. Redcar	Multi-let

OUR PORTFOLIO BY SECTOR CONTINUED

Retail continued

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29. Edinburgh	R Scott Bathrooms Tesco
30. Weston-super-Mare	Superdrug
31. Portsmouth	Vacant

Retail Warehouse


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1. Stourbridge	Bathstore.com Tesco KFC Halfords Pizza Hut
2. Torpoint	Sainsbury's
3. Winnersh	Wickes Pets at Home
4. Banbury	B&Q
5. Grantham	Poundstretcher Laura Ashley Carpetright
6. Milton Keynes	Staples
7. Portishead	Majestic Wine Warehouse
8. Portishead	Homebargains

OUR PORTFOLIO BY SECTOR CONTINUED

Office

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1.	**Leeds, David Street**	Enact
2.	**Leeds, Cardinal House**	Enact
3.	**Leicester**	Regus Mattioli Woods RBS
4.	**West Malling**	Regus
5.	**Derby**	Edwards Geldards
6.	**Solihull**	Lyons Davidson
7.	**Edinburgh**	Age Scotland Digby Brown Metaswitch Networks
8.	**Glasgow**	Cognizant Technology Solutions Safe Deposits JMP Consultants Kerr Barrie 9-20 Recruitment
9.	**Leicester**	Chesham Insurance Mattioli Woods
10.	**Birmingham**	Multi-let

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OUR PORTFOLIO BY SECTOR CONTINUED

Other

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1.	**Knutsford**	R Stratton & Co Bentley
2.	**Castleford**	MKM Buildings Supplies
3.	**Lincoln**	MKM Buildings Supplies
4.	**Gillingham**	Co-Op
5.	**Crewe**	Mecca Bingo MFA Bowl
6.	**Leicester**	Magnet
7.	**Leicester**	Pizza Hut
8.	**Crewe**	Pizza Hut
9.	**Watford**	Pizza Hut
10.	**Dudley**	Premier Inn Hotels
11.	**Perth**	Bannatyne Fitness
12.	**Peterborough**	Marshall Motor Group
13.	**Portishead**	Travelodge Hotels

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OUR PORTFOLIO BY SECTOR CONTINUED

Other continued

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14. Portishead	JD Wetherspoon
15. Solihull	Allen Ford (t/a Kia)
16. Redhill	Honda
17. Bath	Prezzo
18. Basingstoke	Bright Horizons
19. Chesham	Bright Horizons
20. High Wycombe	Stonegate Pub Co
21. Torquay	Las Iguanas
	Le Bistrot Pierre
	Loungers
	Jurassic Coast Coffee (t/a Costa)
22. Perth	The Restaurant Group (t/a Frankie & Benny's)
23. Nottingham	Multi tenanted - Residential
24. Perth	Scotco Eastern (t/a KFC)
25. Crewe	Multi Tile (t/a Tile Giant)
	F1 autocentres
	Plumbase (Grafton Merchanting)
26. Knutsford	Knutsford Day Nursery
27. Southsea	JD Wetherspoon

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Sold in May 2016
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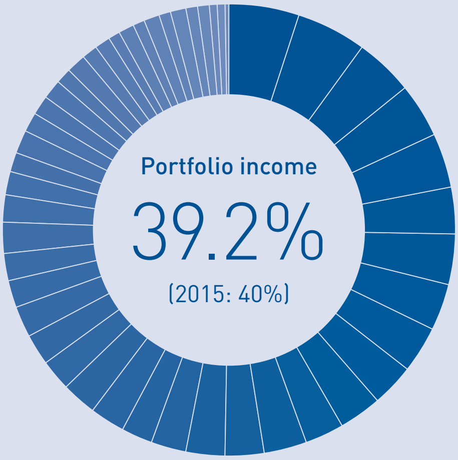
DIVERSE AND RELIABLE TENANTS

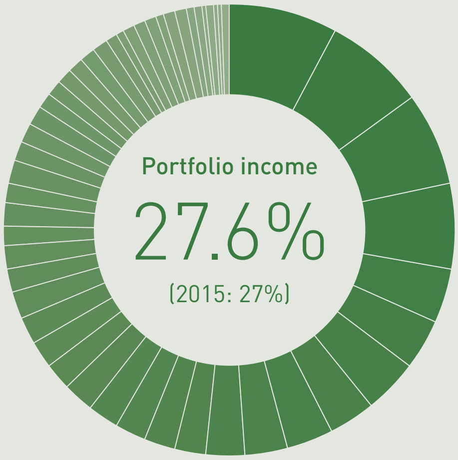
Industrial



Tenant	% portfolio income
JTF Wholesale	2.1%
Teleperformance	2.0%
Restore	1.7%
Superdrug	1.6%
Portola Packaging	1.5%
Royal Mail	1.4%
Revlon International	1.4%
Amco Services	1.4%
Sapa Profiles	1.3%
Turpin Distribution Services	1.3%
Yesss Electrical	1.2%
Massmould	1.2%
Hellermann Tyton	1.2%
BSS	1.1%
DX Network Services	1.1%
Sherwin Williams	1.0%
Unilin Distribution	1.0%
Brenntag	1.0%
Sytner	0.9%
Elma Electronics	0.9%
Constantine	0.9%
DHL Express	0.8%
Emerson Network Power	0.8%
Semcon	0.8%
Ichor Systems	0.8%
West Midlands Ambulance Service NHS Trust	0.7%
Synergy Health	0.6%
Triumph Structures	0.6%

Tenant	% portfolio income
Powder Systems	0.6%
MTS Logistics	0.6%
Bunzl	0.5%
DHL International	0.5%
Sealed Air	0.5%
PHS Group	0.5%
EAF Supply Chain	0.4%
Synertec	0.4%
DHL Global Forwarding	0.4%
Acorn Web Offset	0.4%
Global Furniture Alliance	0.4%
Andrew Page	0.4%
Multi-tenanted industrial	0.4%
Sovereign Air Movement	0.3%
Gamestec Leisure	0.2%
Reid Lifting	0.2%
River Island Clothing	0.1%
Castle Energy Services	0.1%

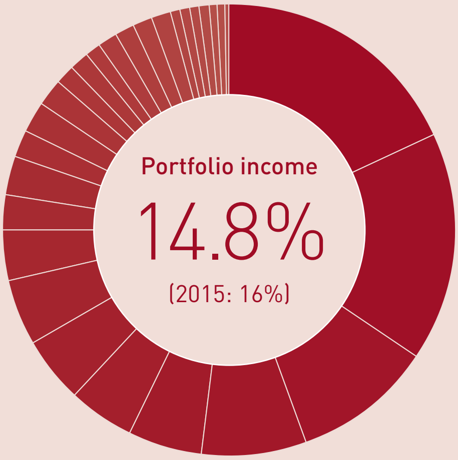
Retail



Tenant	% portfolio income
B&Q	2.1%
Wickes	1.9%
Staples	1.8%
Poundland	1.6%
Laura Ashley	1.0%
Tesco	1.0%
URBN	1.0%
Sainsbury's	0.9%
Specsavers	0.9%
Reiss	0.9%
Waterstones	0.8%
WH Smith	0.7%
Dorothy Perkins	0.6%
Homebargains	0.6%
The White Company	0.6%
Cotswold Outdoor	0.6%
Greggs	0.6%
Top Man	0.5%
Pets at Home	0.5%
Game Retail	0.5%
Sportswift	0.5%
Phase Eight	0.5%
Poundstretcher	0.4%
Carpetright	0.4%
Krudivat	0.4%
Wilko	0.4%
The Works	0.4%
House of Fraser	0.4%
Iceland Foods	0.4%
H Samuel	0.3%
Portsmouth City Council	0.3%

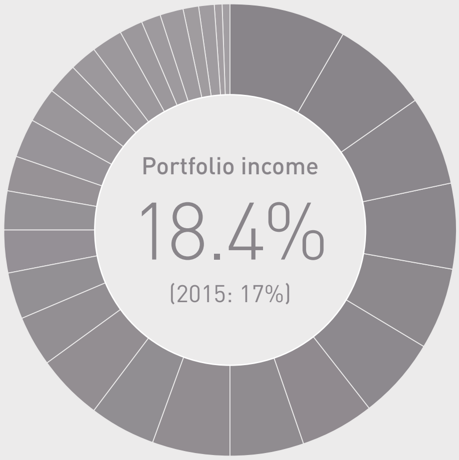
Tenant	% portfolio income
EE	0.3%
Lush	0.3%
Kuoni Travel	0.3%
WH Smith	0.3%
Your Phone Care	0.3%
Whistles	0.3%
Savers Health & Beauty	0.2%
Bathstore.com	0.2%
Majestic Wine Warehouse	0.2%
Done Brothers (t/a Betfred)	0.2%
KFC	0.2%
Aslan Jewellery	0.2%
Framemakers Galleries	0.2%
Leeds Building Society	0.2%
Halfords	0.2%
The Danish Wardrobe Company	0.1%
Coral	0.1%
David Frank Askew	0.1%
P Morgans Bakery	0.1%
R Scott Bathrooms	0.1%

Office



Tenant	% portfolio income
Enact	2.7%
Regus	2.4%
Mattioli Woods	1.5%
Edwards Geldards	1.1%
Lyons Davidson	0.8%
Digby Brown	0.7%
Regus	0.7%
RBS	0.7%
Age Scotland	0.5%
Cognizant Technology Solutions	0.4%
Metaswitch Networks	0.4%
Chesham Insurance	0.3%
Dakeyne Emms Gilmore Liberson	0.3%
Kerr Barrie	0.3%
TP Cuthbertson and MG Stocks	0.2%
Grayling Communications	0.2%
JMP Consultants	0.2%
Systra	0.2%
Workers Educational Association	0.2%
Stoford Properties	0.2%
Quantem Consulting	0.2%
Copeland Wedge	0.1%
Naismiths	0.1%
Reward Gateway	0.1%
Bell Cornwall	0.1%
KWB Property Management	0.1%
Safe Deposits	0.1%

Other



Tenant	% portfolio income
R Stratton & Co Bentley	1.6%
MKM Buildings Supplies	1.3%
Co-op	1.1%
Mecca Bingo	1.1%
Magnet	1.0%
Pizza Hut	1.0%
Premier Inn	1.0%
Bannatyne's	1.0%
Marshall Motor Group	1.0%
MFA Bowl	0.9%
Travelodge	0.9%
JD Wetherspoon	0.7%
Allen Ford (t/a Kia)	0.6%
Honda	0.6%
Prezzo	0.5%
Bright Horizons	0.5%
Stonegate Pub Co	0.5%
Las Iguanas	0.5%
The Restaurant Group	0.4%
Multi-tenanted residential	0.4%
Le Bistrot Pierre	0.4%
Scotco Eastern (t/a KFC)	0.3%
Multi Tile (t/a Tile Giant)	0.3%
Loungers	0.2%
F1 autocentres	0.2%
Knutsford Day Nursery	0.2%
Plumbase	0.1%
Jurassic Coast Coffee (t/a Costa)	0.1%

PRINCIPAL RISKS AND UNCERTAINTIES

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

The Directors have carried out a robust assessment of the principal risks facing the Company, including those that would threaten the business model, future performance, solvency or liquidity. The table below outlines the risk factors identified, but does not purport to be exhaustive as there may be additional risks that materialise over time that the Company has not yet identified or has deemed not likely to have a potentially material adverse effect on the business:

Risk type	Risks	Mitigating factors
Investment portfolio	• Tenant default. • Change in demand for space. • Market pricing affecting value. • Excess concentration in geographical location or sector. • Lease expiries concentrated in a specific year. • Decrease in occupancy.	• Investment policy limits the Company's rent roll to no more than 10% to a single tenant, and no more than 50% in any particular sector or geographical region. • Focused on established business locations for investment. • Active portfolio diversification between office, industrial (distribution, manufacturing and warehousing), retail and other. • Active management of lease expiry profile and acknowledging in forming acquisition decisions. • Building specifications not tailored to one user.
Financial	• Reduced availability or increased cost of debt. • Breach of borrowing covenants.	• Target gearing of 25% loan–to-value ("LTV") on property portfolio. • Existing facilities sufficient for spending commitments and agreed until 2020. • On-going monitoring and management of the forecast liquidity and covenant position.
Operational	• Inadequate performance, controls or systems operated by the Investment Manager.	• Ongoing review of performance by independent Board of Directors.
Regulatory	• Adverse impact of new or revised legislation or regulations or by changes in the interpretation or enforcement of existing laws and regulations. • Non-compliance with the REIT regime[16].	• Strong compliance culture. • External professional advisers are engaged to review and advise upon control environment and ensure regulatory compliance. • Business model and culture embraces FCA principles. • REIT regime compliance is considered by the Board in assessing the Company's financial position and by the Manager in making operational decisions.

16 As defined by the Corporation Tax Act 2010.

While the outcome of the EU referendum on 23 June 2016 is uncertain, the Board does not consider its outcome as being likely to have a material impact on the Company's performance.

Long term viability statement

In accordance with provision C2.2 of the UK Corporate Governance Code issued by the Financial Reporting Council in 2012 ("the Code"), the Directors have assessed the prospects of the Company over a period longer than the 12 months required by the 'Going Concern' provision. The Board resolved to conduct this review for a period of three years, because:

- The Company's strategic review covers a three-year period; and
- The Board believes a three-year horizon maintains a reasonable level of accuracy regarding projected rental income and costs, allowing robust sensitivity analysis to be conducted.

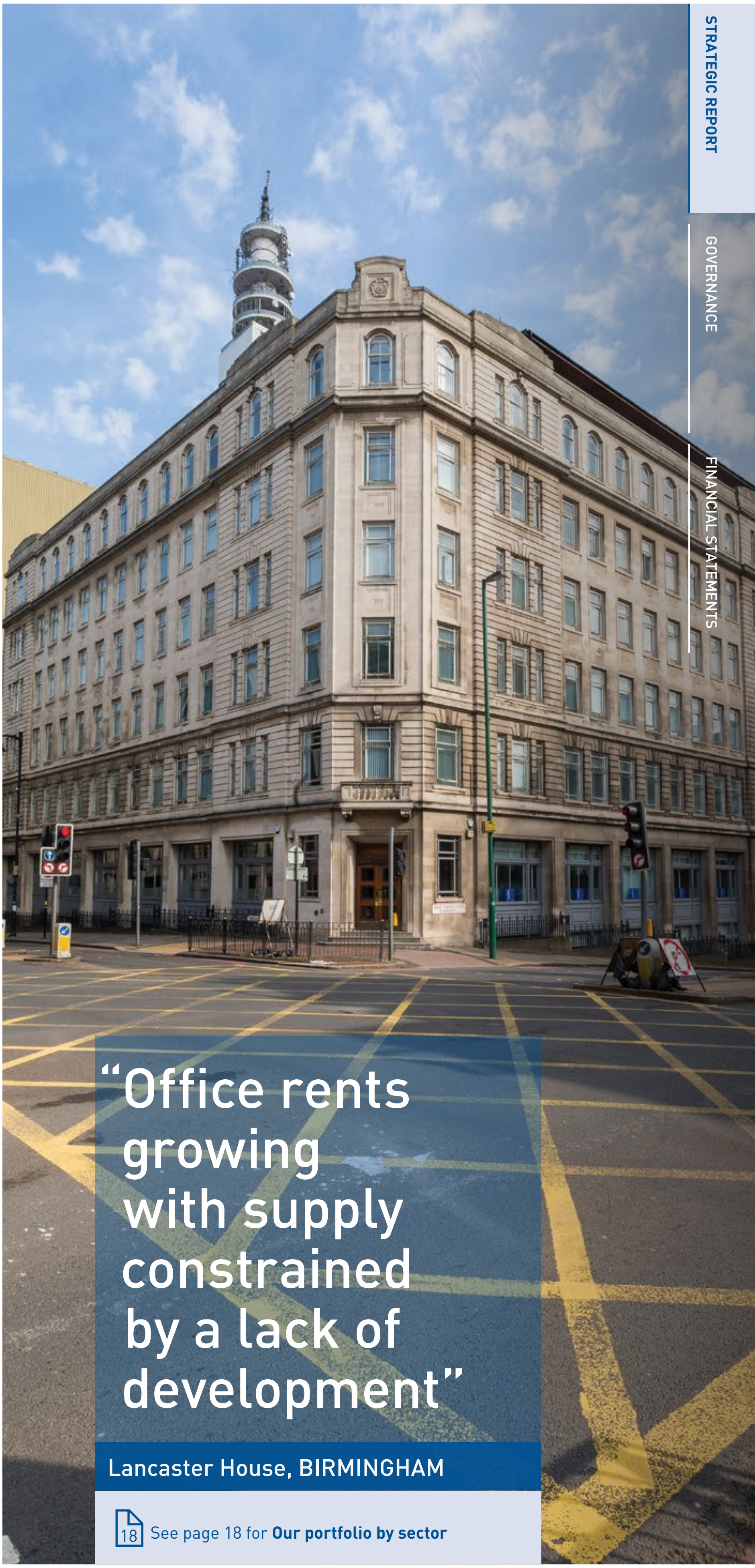
The Board's three-year strategic review considered the Company's profit, cash flows, dividend cover, REIT regime compliance, borrowing covenant compliance and other key financial ratios over the period. These metrics are subject to sensitivity analysis, which involves flexing a number of key assumptions underlying the projections, including:

- Tenant default;
- Length of potential void period following lease break or expiry;
- Acquisition NIY and the timing of deployment of cash;
- Interest rate changes; and
- Property portfolio valuation movements.

This analysis also evaluates the potential impact of the principal risks actually occurring.

Current debt and associated covenants are summarised in Note 16, with no covenant breaches during the year. The Company's dividend policy is set out in Business Model and Strategy. The principal risks faced by the Company, together with the steps taken to mitigate them, are highlighted above, and in the Audit Committee report. The Board seeks to ensure that risks are kept to a minimum at all times.

Based on the results of this analysis, the Directors expect that the Company will be able to continue in operation and meet its liabilities as they fall due over the three year period of their assessment.



"Office rents growing with supply constrained by a lack of development"

Lancaster House, BIRMINGHAM

18 See page 18 for **Our portfolio by sector**

BUSINESS MODEL AND STRATEGY

INVESTMENT OBJECTIVE AND POLICY

The Company seeks to provide shareholders with an attractive level of income together with the potential for capital growth from investing in a diversified portfolio of commercial real estate properties in the UK. Since Admission, the Company has targeted individual properties with a value of less than £7.5m at acquisition, benefitting from a significant NIY advantage as a result. However, it is increasingly clear that the market sets the threshold for smaller lot sizes at £10m and hence the Board recommends that shareholders approve an increase in the maximum target lot size to £10m at the Company's next AGM[17].

The portfolio should not exceed a maximum weighting to any one property sector, or to any geographic region, of greater than 50%, with the Company's investment objectives being:

1. To hold a portfolio of UK commercial property, diversified by sector, location, tenant and lease term;
2. To focus on areas with high residual values, strong local economies and an imbalance between supply and demand. Within these locations, the objective is to acquire modern buildings or those that are considered fit for purpose by occupiers;
3. To have no one tenant or property accounting for more than 10% of the total rent roll of the portfolio at the time of purchase, except:

   a) In the case of a single tenant which is a governmental body or department, where no limit shall apply; or
   b) In the case of a single tenant rated by Dun & Bradstreet ("D&B") as having a credit risk score higher than two[18], where the exposure to such single tenant may not exceed 5% of the total rent roll (a risk score of two represents "lower than average risk").
4. To maintain an average unexpired lease term to first break of over five years across the portfolio secured against low risk tenants and to minimise rental voids;
5. Not to undertake speculative development (that is, development of property which has not been leased or pre-leased), save for refurbishment of existing holdings, but may (provided that it shall not exceed 20% of the gross assets of the Company) invest in forward funding agreements or forward commitments (these being arrangements by which the Company may acquire pre-development land under a structure designed to provide the Company with investment rather than development risk) of pre-let developments, where the Company intends to own the completed development; and
6. To target borrowings of up to 25% of the aggregate market value of all the properties of the Company at the time of borrowing.

17 The Company's 2016 AGM is being held at the offices of Canaccord Genuity Limited, 88 Wood Street, London, EC2V 7QR at 11a.m on 26 July 2016.
18 Previously D&B ICC Client Services credit rating of less than 60 ("normal, limited risk potential, normal terms"), which is no longer published by D&B.

Key performance indicators

The Board meets quarterly and at each meeting reviews performance against a number of key measures:

- Dividends per share and dividend yield – A key objective is to provide an attractive, sustainable level of income to shareholders. The Board reviews dividends per share and dividend yield in conjunction with detailed financial forecasts to ensure that target dividends are being met and are sustainable;
- Property voids – The Board reviews the level of property voids within the Company's portfolio on a quarterly basis and compares this to the market average, as measured by the IPD. The Board seeks to ensure that the Investment Manager is giving proper consideration to replacing the Company's income;
- Rent arrears – The Board assesses rent collection by reviewing the percentage of rents past due at each quarter end;
- NAV total return – The NAV total return reflects both the NAV growth of the Company and dividends paid to shareholders. The Board regards this as the best overall measure of value delivered to shareholders. The Board assesses NAV total return over various time periods and compares the Company's returns to those of its peer group of listed, closed-ended property investment funds; and
- Premium or discount of the share price to NAV – The Board closely monitors the premium or discount of the share price to the NAV and believes a key driver of this is the Company's long term investment performance. However, there can be short term volatility in the premium or discount and the Board therefore seeks limited authority at each AGM to issue shares with a view to trying to limit this volatility.

The Board considers the performance measures over various time periods and against similar funds. A record of these measures are disclosed in the Financial highlights and performance summary, the Chairman's statement and the Investment Manager's report.

Finance

The Company operates with a conservative level of gearing, with expected borrowings over the medium term of up to 25% of the aggregate market value of all properties at the time of drawdown.

Debt

The Company operates the following facilities:

- A £35m RCF with Lloyds Bank plc expiring in November 2020, attracting annual interest of 2.45% above three-month LIBOR on advances drawn down under the agreement from time to time;
- A £20m term loan facility with SWIP repayable in August 2025, attracting fixed annual interest of 3.935%; and
- A £45m term loan facility with Scottish Widows Limited repayable in June 2028, attracting fixed annual interest of 2.987%.

The Company's borrowing facilities all require minimum interest cover of 250% of the net rental income of the security pool. The maximum LTV of the Company combining the value of all property interests (including the properties secured against the facilities) must be no more than 35%.

On 6 June 2016 a £20m term loan with Lloyds Bank repayable in 2019, attracting annual interest of 1.95% above three-month LIBOR was repaid in full, incurring no early repayment charges.

Equity

On 5 November 2015 the Board announced a placing, open offer and offer for subscription in conjunction with a twelve month placing programme for the issue of up to 100m new ordinary shares in the Company.

On 30 November 2015 the Company raised £44.25m (before costs and expenses) through a placing of 42,466,411 new ordinary shares under the placing, open offer and offer for subscription. In addition, the Company raised £33.5m (before costs and expenses) through the tap issuance of 31,170,000 new ordinary shares.

Following the year end, the Company issued a further 27.6m of new ordinary shares under the placing programme raising £29.0m (before costs and expenses).

BUSINESS MODEL AND STRATEGY CONTINUED

Dividends

Three quarterly interim dividends totalling 4.5875p per share have been paid in respect of the year. The Board has approved a fourth interim dividend relating to the quarter ended 31 March 2016 of 1.6625p per share, payable on 30 June 2016, achieving the target dividend[19] of 6.25p per share for the year ended 31 March 2016, which is fully covered by net rental income.

In the absence of unforeseen circumstances, the Board intends to pay further quarterly dividends to achieve a target dividend[19] of 6.35p per share for the year ending 31 March 2017. The Board plans to increase future dividends in a sustainable way, at a rate which is fully covered by net rental income and does not inhibit the flexibility of the Company's investment strategy.

Employees

The Company has four non-executive directors and no employees. Non-executive directors are paid fixed salaries and participate in the performance of the Company through their shareholdings. The Board is conscious of the increased focus on diversity in the boardroom and acknowledges the importance of diversity, while noting that changes to the composition of the Board should not be forced. All non-executive directors are white males. The Board believes that for any future appointment the best person for the role should be selected, while recognising the benefits of diversity when considering a particular appointment.

Corporate social responsibility

The Company is committed to delivering its strategic objectives in an ethical and responsible manner. The Company's environmental and social policies address the importance of these issues in the day-to-day running of the business, as detailed below.

Environmental policy

The four key elements of the Company's environmental policy are:

- An independent environmental report is required for all potential acquisitions, which considers, amongst other matters, the historical and current usage of the site and the extent of any contamination present;
- An ongoing examination of existing and new tenants' business activities is carried out to prevent pollution risks occurring. The Company monitors all incoming tenants through its insurance programme to identify potential risks, and high-risk business activities are avoided. As part of the active management of the portfolio, any change in tenant business practices considered to be an environmental hazard is reported and suitably dealt with;
- Sites are visited periodically and any obvious environmental issues are reported to the Board; and
- All leases prepared after the adoption of the policy commit occupiers to observe any environmental regulations. Any problems are referred to the Board.

Development activity

During the year the Company carried out two industrial developments at sites in Warwick and Cannock. The respective developers are sensitive to both ecological and sustainability considerations and each development has complied with environmental standards. The development at Cannock has been designed to achieve a 'very good' BREEAM rating and an EPC grade 'A'. The development at Warwick has been fitted with solar photovoltaic panels generating over 10% of the new building's energy requirements from a renewable energy source. Developments built to this environmental specification ensure the creation of an improved, stable environment and reduce heating and energy costs.

Social policy

The activities of the Company are carried out in a responsible manner, taking into account the social impact.

19 This is a target only and not a profit forecast. There can be no assurance that the target can or will be met and it should not be taken as an indication of the Company's expected or actual future results. Accordingly, shareholders or potential investors in the Company should not place any reliance on this target in deciding whether or not to invest in the Company or assume that the Company will make any distributions at all and should decide for themselves whether or not the target dividend yield is reasonable or achievable.

Greenhouse gas emissions

Under the Companies Act 2006 (Strategic and Directors' Reports) Regulations 2013, the Company is required to report greenhouse gas emissions for each financial year as follows:

Sources of greenhouse gas emissions	Year ended 31 March 2016 tCO_2e [20]	Period ended 31 March 2015 tCO_2e
Scope 1 Gas, refrigerants and fuel	—	—
Scope 2 Landlord controlled electricity	554.7	66.6
Intensity measure Emissions per £1m of rent	24.1	4.2

The operational control method has been used to reflect influence over energy consumption, with the increase in landlord controlled electricity due to the acquisition of several multi-let properties during the year. Tenants' usage or emissions are not included as the Company does not have control over those items. Emissions from vacant space have been included.

Approval of Strategic Report

The Strategic Report, (incorporating the Chairman's statement, Investment Manager's report, Portfolio, Principal risks and uncertainties and Business model and strategy) was approved by the Board of Directors and signed on its behalf by:

David Hunter
Director
6 June 2016

20 Tonnes of carbon dioxide equivalent.

Phoenix Leisure Park, CREWE

18 See page 18 for **Our portfolio by sector**

"We are witnessing rental growth and low vacancy rates"

BOARD OF DIRECTORS

The Board comprises four Non-Executive Directors. A short biography of each Director is set out below:

David Hunter

Role: Independent Chairman

Age: 62

David is an international property consultant specialising in property funds and companies. He is on the boards of both listed and unlisted companies in UK and overseas, and has corporate advisory roles in the UK and France.

He has over 25 years' experience as a fund manager, including as Managing Director of Aberdeen Asset Management's property fund business. David is a former President of the British Property Federation and was actively involved in the introduction of REITs to the UK.

Ian Mattioli

Role: Director

Age: 53

Ian has over 30 years' experience in the financial services industry and, together with Bob Woods founded "Mattioli Woods" which now has over £6 billion of assets under management, administration and advice. Ian is responsible for the vision and operational management of Mattioli Woods and instigated the development of the investment proposition, including the structured products initiative. His personal achievements include winning the London Stock Exchange AIM Entrepreneur of the Year award.

Barry Gilbertson PP-RICS

Role: Independent Director

Age: 65

Barry is the designated Senior Independent Director. He is an international consultant with a focus on real estate, strategy and risk, who has more than 40 years' experience advising on property. He was an adviser to the Bank of England from 2003 to 2014 and is a former global President of the Royal Institution of Chartered Surveyors. In 1996, Barry became the first chartered surveyor to become a full equity partner in any firm of chartered accountants, worldwide, when he joined the Coopers & Lybrand (now PricewaterhouseCoopers) partnership, where he worked until 2011.

Barry has been a non-executive consultant to Knight Frank LLP, and currently holds independent non-executive directorships of two publicly-quoted companies – Granite REIT which is quoted on the NYSE and TSX and conwert Immobilien Invest SE quoted on the Vienna Stock Exchange. Barry became a Member of Council of The University of Bath in 2014 and holds Visiting Professor appointments at two UK universities.

Matthew Thorne MA, FCA

Role: Independent Director

Age: 63

Matthew qualified as a chartered accountant in 1978 with Price Waterhouse. He is an independent non-executive director of Bankers Investment Trust plc, chairing the audit committee, and since May 2007 has been an advisor to Consensus Business Group (led by Vincent Tchenguiz).

He is also an advisory board and panel member of Greenwich Hospital. Matthew's previous executive roles have included Group Finance Director of McCarthy & Stone plc from 1993 to 2007, Finance Director of Ricardo plc from 1991-1992 and Investment Director of Beazer plc from 1983 to 1991.

KEY INVESTMENT MANAGER PERSONNEL

A short biography of the Investment Manager's key personnel is set out below:

Richard Shepherd-Cross BSc MRICS

Role:
Managing Director

Age: 45

Richard has more than 20 years' experience in the commercial property market. He sits on the board of the Investment Manager operating the business and managing a core team of 12. Richard is a former director at Jones Lang LaSalle in London where he led the portfolio investment team. Richard has had responsibility for developing the services of Mattioli Woods' property business and for establishing Custodian Capital in 2011.

Nathan Imlach CA FCSI CF

Role:
Finance Director

Age: 46

Nathan qualified as a chartered accountant in 1993 with Ernst & Young, specialising in providing mergers and acquisitions advice to a broad range of quoted and unquoted clients in the UK and abroad. He joined Mattioli Woods as its Finance Director in 2005, prior to its admission to AIM.

Nathan has also been the Finance Director of Custodian Capital since its formation in 2011 and oversees the reporting and accounting framework of the company. He is a Fellow of the Chartered Institute for Securities & Investment and holds the Corporate Finance qualification from the Institute of Chartered Accountants in England and Wales. Nathan is the senior independent non-executive director of Mortgage Advice Bureau (Holdings) plc, chairing the audit committee, and is a trustee of Leicester Grammar School.

Ian Mattioli (Founder and Chairman)

Ian's biography is set out on the opposite page.

GOVERNANCE REPORT

The Company is committed to the principles of corporate governance contained in the Code, for which the Board is accountable to shareholders. The updated Code is available from the FRC website at www.frc.org.uk.

The Company has applied the principles set out in the Code, including both the main principles and the supporting principles, by complying with the Code during the year, so far as is possible, given the Company's size and nature of business. Further explanation of how the main principles have been applied is set out below, in the Directors' remuneration report and in the Audit Committee report. Areas of non-compliance with the Code are as follows:

- There is no chief executive position within the Company, which is not in accordance with provision A.2.1 of the Code. As an investment company, the Company has no employees and therefore no requirement for a chief executive;
- The Company has not established a nomination committee, which is not in accordance with provision B.2.1 of the Code. As all of the directors are non-executive, the Company considers that the Board as a whole can fulfil the role otherwise undertaken by such committees; and
- The Company has not established a remuneration committee, which is not in accordance with Provision D.2.1 of the Code. As all of the directors are non-executive, the Company considers that the Board as a whole can fulfil the role otherwise undertaken by such committees.

Role of the Board

The Board comprises four directors, all of whom have wide experience, are non-executive and, save for Ian Mattioli, are independent of the Investment Manager. The Directors are responsible for managing the Company's business in accordance with its Articles of Association ("the Articles") and the investment policy (as set out in the Strategic Report), and have overall responsibility for the Company's activities. The Directors may delegate certain functions to other parties. In particular, the Directors have delegated responsibility for management of the Company's property portfolio to the Investment Manager, while retaining the responsibility for exercising overall control and supervision of the Investment Manager.

In making any new Board appointment the Directors will consider a number of factors, including diversity, but principally the skills and experience that will be relevant to the specific role and that will complement the existing Board members. The Articles stipulate that all new directors shall retire and offer themselves for re-appointment every three years.

The attendance of the directors at scheduled Board and Board committee meetings during the year was as follows:

	Board	Audit Committee	Management Engagement Committee
David Hunter	4/4	3/3	1/1
Barry Gilbertson	4/4	3/3	1/1
Ian Mattioli	4/4	3/3	1/1
Matthew Thorne	4/4	3/3	1/1

Directors' interests are set out in the Directors' remuneration report.

The Board considers that the length of time each director, including the Chairman, serves on the Board should not be limited and has not set a finite tenure policy. Length of service of current directors and future succession planning is reviewed each year as part of the Board evaluation process.

Chairman

The Chairman is responsible for leadership of the Board and ensuring its effectiveness on all aspects of its role. The Chairman is responsible for setting the Board's agenda and ensuring that adequate time is available for discussion of all agenda items, in particular strategic issues. The Chairman should also promote a culture of openness and debate by facilitating the effective contribution of non-executive directors.

The Chairman is responsible for ensuring that the directors receive accurate, timely and clear information and ensuring effective communication with shareholders.

The Investment Manager
The Company has appointed Custodian Capital Limited as Investment Manager and Alternative Investment Fund Manager ("AIFM") under an investment management agreement ("IMA") detailed in Note 19 to the financial statements. Under the IMA, the Investment Manager is paid an annual fund and asset management fee of 0.9% of the NAV of the Company up to £200m and 0.75% of the NAV of the Company in excess of £200m, plus an annual administration fee of 0.125% of the NAV of the Company.

The Investment Manager is a subsidiary of Mattioli Woods plc ("Mattioli Woods"), a related party, a provider of specialist pension consultancy and administration, employee benefits and wealth management. The Investment Manager is authorised and regulated by the Financial Conduct Authority ("FCA") and has an established market presence in the small property sector, with a proven track record of property syndication, investment and asset management.

Ian Mattioli is beneficially interested in the share capital of Mattioli Woods, the parent company of the Investment Manager, and therefore has an indirect interest in the Investment Manager.

Key personnel
The Investment Manager's key personnel are Richard Shepherd-Cross, Nathan Imlach and Ian Mattioli.

AIFM Directive
The directive creates a European Union ("EU") wide framework for regulating an AIFM. The Company's activities fall within the scope of the directive and the Board has determined that the Investment Manager will act as AIFM for these purposes. The Board has put in place a system of regular reporting from the AIFM and the Company's depositary to ensure both are meeting their regulatory responsibilities in respect of the Company.

Non-mainstream pooled investments
The Company conducts its affairs so that its shares can be recommended by independent financial advisers to retail investors in accordance with the rules of the FCA in relation to non-mainstream pooled investments, and intends to continue to do so for the foreseeable future.

Board committees
Audit Committee
The Audit Committee comprises the independent directors and is chaired by Matthew Thorne. Its responsibilities are set out in the Audit Committee report.

Management Engagement Committee
The Management Engagement Committee comprises the independent directors and is chaired by Barry Gilbertson. The Investment Manager is appointed under the IMA to provide real estate fund management services. The Management Engagement Committee reviews annually the performance of the Investment Manager and its compliance with the Company's investment policy and with the IMA. During the year, the Management Engagement Committee has considered:

- The capability and resources of the Investment Manager to deliver satisfactory investment performance;
- The length of the notice period of the IMA; and
- The fees payable to the Investment Manager.

The Management Engagement Committee also reviews, annually, other organisations providing significant financial, advisory or legal services to the Company either directly or via the Investment Manager, including the terms of engagement and effectiveness of the independent valuer. As a consequence of these reviews, the Directors are satisfied with the Investment Manager's ability to deliver investment performance that meets the agreed objectives, such that the continuing appointment of the Investment Manager, on the terms agreed, is in the best interest of the Company and its shareholders.

Nominations and Remuneration Committee
The Board has not established a separate Nominations Committee or Remuneration Committee as, given the nature of the Company's operations, these duties are performed by the Board as a whole.

Directors' share dealings
The Directors have adopted a code of directors' dealings in ordinary shares, which is based on the Model Code for directors' dealings contained in the Listing Rules (the "Model Code"). The Board is responsible for taking all proper and reasonable steps to ensure compliance with the Model Code.

Board appraisals
The Directors have annual performance appraisals. The Board as a whole considers its performance and the performance of its committees. The Chairman reviews the performance of the non-executive directors and the non-executive directors review the Chairman's performance. The questions set out in the Higgs guidance are considered at each appraisal, where relevant to the Company. As part of the annual performance appraisal process, the training needs for board members are considered and, where necessary, acted upon.

GOVERNANCE REPORT CONTINUED

Shareholders
The Company encourages two-way communication with both its institutional and private investors and responds quickly to all queries received either orally or in writing. All shareholders have at least 20 clear working days' notice of the AGM, where all directors and committee members are available to answer questions.

At the AGM all votes are dealt with on a poll and the number of proxy votes cast is indicated. Votes on separate issues are proposed as separate resolutions.

The Investment Manager and corporate broker regularly update the Board with the views of shareholders and analysts.

Conflicts of interest
The Articles allow the Board to authorise potential conflicts of interest that may arise, subject to imposing limits or conditions when giving authorisation if this is appropriate. Only independent directors (who have no interest in the matter being considered) are able to take the relevant decision and, in taking the decision, the Directors must act in a way they consider will be most likely to promote the Company's success. Procedures have been established to monitor actual and potential conflicts of interest on a regular basis, and the Board is satisfied that these procedures are working effectively.

Internal control
The Investment Manager is responsible for operating the Company's system of internal control and reviewing its effectiveness. Such a system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can provide only reasonable but not absolute assurance against material misstatement or loss.

The Board has an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. The process is regularly reviewed by the Board, based on reports from management, and accords with the Internal Control Guidance for Directors on the Combined Code produced by the Turnbull working party. Key features of the Company's system of internal control include:

- A detailed authorisation process and formal delegation of authority;
- A comprehensive financial reporting and forecasting system;
- A defined schedule of matters reserved for the Board; and
- An annual review of the effectiveness of internal controls and formal consideration of business risks. Issues are also raised at quarterly board meetings as appropriate.

The Board has considered the requirements of the Bribery Act 2010 and has taken steps to ensure that it has adequate procedures in place to comply with the requirements of the Act. Responsibility for the Company's bribery prevention policies rests with the Investment Manager.

Steps are being taken to embed internal control and risk management further into the operations of the business and to deal with areas of improvement which come to the Board's attention.

Approval
This Governance report was approved by the Board of Directors and signed on its behalf by:

David Hunter
Director
6 June 2016

AUDIT COMMITTEE REPORT

Composition
The Audit Committee ("the Committee") comprises Matthew Thorne as Chairman, David Hunter and Barry Gilbertson, all of whom are independent non-executive directors.

Responsibilities
The Committee meets regularly to monitor the integrity of the Company's financial statements and is also responsible for the appointment, performance and independence of the external auditor and the independent property valuer. The Committee has also considered the Board's additional requirement under the Code to state whether, in the Board's opinion, the Annual Report is fair, balanced and understandable. In providing support to the Board in making this statement, the Committee has reviewed and approved a process undertaken by management to provide confirmation to the Board.

The key responsibilities and principal activities of the Committee are as follows:

- To monitor the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance, and reviewing significant financial reporting judgements contained in them;
- To advise the Board on whether the Interim Report, Annual Report and financial statements are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model, strategy, risks, working capital requirements and long term viability;
- To monitor and review the effectiveness of the Company's internal control environment and monitoring processes;
- To review the significant risks faced by the Company;
- To review the internal audit programme, monitoring the effectiveness of the audit process and identifying any matters it considers need action or improvement, making recommendations as to the steps to be taken;
- To make recommendations to the Board to be put to shareholders for their approval in general meeting in relation to the appointment, reappointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
- To review the appointment of the external auditor as auditor and tax adviser, monitoring the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- To develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm and to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;
- To agree the scope of statutory audit work and any additional assurance work to be undertaken; and
- To gain assurance around the independence of the valuer.

The Committee also oversee and approve the calculation of fees payable to the Manager set out in Note 19.

Meetings
The Audit Committee meets no less than three times a year, typically in May to consider the Annual Report and external audit findings, in November to consider the Interim Report, interim announcement and external review findings, and in January to plan for the financial year ahead. Any other matters, including internal controls, are considered as and when necessary.

Meetings are attended by the Committee members and the external auditor. The Committee allows time to speak with the external auditor without the Investment Manager present for at least one meeting each year.

Primary areas of judgement in relation to the Annual Report and financial statements
The Committee considers the significant judgements made in the Annual Report and financial statements and receives reports from management and the external auditor on those judgements. The Committee pays particular attention to the matters it considers to be important by virtue of size, potential impact, complexity and level of judgement.

The principal issue considered by the Committee for the year was the valuation of the Company's property portfolio at £319.0m as at 31 March 2016, which is fundamental to the Company's statement of financial position and reported results. The external auditor meets with the valuer separately from the Audit Committee, using real estate specialists where applicable, and reports back to the Committee on its review. The Committee also gains comfort from the valuer's methodology and other supporting market information.

Loan covenant and REIT regime compliance is a matter for the whole Board. The Company remains conservatively geared and the Committee considers reports to support the Company's going concern status and REIT regime compliance in quarterly board reports, which include headroom and sensitivity analysis, along with undrawn facilities and forecasts.

AUDIT COMMITTEE REPORT
CONTINUED

Audit

The Company's day-to-day operations are contracted to the Investment Manager, including the internal audit function. The Committee agrees an appropriate annual internal audit programme, taking into consideration the current size of the Company and its relative lack of business complexity.

The external audit, review of its effectiveness, and auditor reappointment

The Audit Committee annually reviews the external auditor's:

- Appointment;
- Relationship with the Company;
- Level of effectiveness;
- Audit and non-audit fees; and
- Independence.

The review of the 2016 external audit was conducted internally. The Committee agreed a framework to assess the effectiveness of the audit approach and considered the views of the Investment Manager. Following this review, the Committee were satisfied that the external auditor, Deloitte, continued to perform effectively. The Committee is mindful of the transitional arrangements of the Code and proposed EU legislation in relation to external auditor appointment and restrictions on the level of non-audit fees paid to, and services performed by, the external auditor and continues to monitor developments and the Company's policy for non-audit services provided by the external auditor. An audit tendering policy suitable for the Company's size will be introduced when there is certainty over the final requirements that will be applicable to the Company.

Fees incurred by the Company from its auditor, Deloitte LLP ("Deloitte"), during the year were as follows:

	Year ended 31 March 2016 £000	Period ended 31 March 2015 £000
Audit of the Company's financial statements for the periods ended[21]:		
– 24 March 2014	—	17
– 31 August 2014	—	35
– 31 March 2015	—	50
Audit of the Company's Annual Report for the year ended 31 March 2016	52	—
Total audit related fees	52	102
Reporting accountant services and other advisory services on Admission and secondary share placings	70	165
Tax advisory services	—	82
Tax compliance services	15	16
Review of the Company's Interim Report	11	8
Real estate advisory services	520	—
Total non-audit fees	616	271
Total fees	668	373

Non-audit fees

A non-audit fee policy has been adopted by the Audit Committee, which considers the appointment of the external auditor for non-audit work, after taking into account their suitability to perform the services, the potential impact on their independence and objectivity and the relationship of non-audit to audit fees. Where there are any doubts as to whether the external auditor has a conflict of interest, Audit Committee approval is required in advance of the engagement.

In September 2015 the Investment Manager recommended that the Company engage Deloitte Real Estate, a division of Deloitte LLP, to act on the Company's behalf on the proposed acquisition of the Indigo portfolio ("the Engagement"), as detailed in the Investment Manager's report. Due to a material fee being payable to Deloitte Real Estate, which was contingent on the successful completion of the Engagement, the Committee met to consider whether the proposed Engagement gave rise to a conflict of interest and therefore impaired the independence of Deloitte LLP in its role as the Company's auditor. The Committee reviewed the proposed appointment and noted the advisory services to be provided under the Engagement:

21 Statutory audits were carried out for the periods ended 24 March 2014 and 31 August 2014 to facilitate the Company's objective of paying quarterly dividends.

- Were to be provided by a different service team based in a different office to the Deloitte LLP team providing statutory audit services to the Company, with no cross-over of personnel between the teams;
- Would not lead to an auditable accounting entry, with the valuation of the Indigo portfolio to be provided by an independent valuer. Accordingly, there was no self-review threat for Deloitte LLP;
- Were solely advisory, with no risk that the Engagement might constitute a management activity; and
- The contingency in the Engagement fee was not dependent on a future audit judgment relating to a material matter in the financial statements of the Company.

Following careful consideration, the Committee resolved that the independence of Deloitte LLP's statutory audit would not be impaired by the Engagement and the appointment of Deloitte Real Estate was approved. Subsequently, Deloitte LLP has announced its intention to sell parts of Deloitte Real Estate, separating parts of Deloitte Real Estate from Deloitte LLP's auditing division.

The Committee has reviewed the level of fees paid to Deloitte LLP for other non-audit services, which include a number of one-off items relating to Admission in 2015, and is satisfied the independence and objectivity of Deloitte LLP as the Company's auditor is not impaired.

The use of Deloitte to provide tax services is considered appropriate given the nature of the Company's tax affairs which require a detailed knowledge of the structure and history of the business.

Given the external auditor's detailed knowledge of the structure of the organisation, certain recurring services provided by them, subject to the amount of fee involved, are not considered to impair the external auditor's independence or objectivity. Services included in this category are: accounting advice; tax compliance and advisory; compliance and regulatory certificates and minor projects, where the fee involved will not exceed £10,000 without the prior consent of the Committee.

The Committee will not normally allow the external auditor to be used for the following: compiling accounting records; internal audit services; IT consultancy; remuneration advice; valuation work; and work on internal controls.

Deloitte was appointed as the Company's auditor in 2014. Under the Financial Reporting Council's transitional arrangements the Company is required to re-tender, at the latest, by 2024. The Committee intends to re-tender within the timeframe set by the Financial Reporting Council. The external auditor is required to rotate the audit partner responsible for every fifth audit. The 31 March 2016 audit marks the fourth audit for the current lead audit partner.

Deloitte has confirmed its willingness to continue in office and ordinary resolutions reappointing Deloitte as auditor and authorising the Committee to set the auditor's remuneration will be proposed at the AGM.

Approval
This Audit Committee report was approved by the Audit Committee and signed on its behalf by:

Matthew Thorne
Chairman of the Audit Committee
6 June 2016

DIRECTORS' REMUNERATION REPORT

The Non-executive Directors and Company Secretary are the only officers of the Company. The Directors are engaged under letters of appointment and do not have service contracts with the Company. The Company Secretary is engaged under the terms of the IMA with the Investment Manager. The Company has no employees.

Under the terms of their appointment, each director is required to retire by rotation and seek re-election at least every three years. The Company's Articles require one third of Directors to retire and seek re-election each year. Each Director's appointment under their respective letter of appointment is terminable immediately by either party (the Company or the director) giving written notice and no compensation or benefits are payable upon termination of office as a director of the Company becoming effective.

Remuneration policy

The Company's objective is to have a simple and transparent remuneration structure, aligned with the Company's strategy.

The Company aims to provide remuneration packages which will retain non-executive directors with the skills and experience necessary to maximise shareholder value on a long term basis.

The remuneration policy has been prepared in accordance with Schedule 8 of The Large and Medium-sized Companies and Company's (Accounts and Reports) Regulations 2008 ("the Regulations") as amended in August 2013.

Directors' remuneration (audited)

	Year ended 31 March 2016			
	Prospectus fee £	Fees £	Social security costs £	Total £
David Hunter	5,000	45,000	6,526	56,526
Matthew Thorne	5,000	35,000	4,802	44,802
Barry Gilbertson	5,000	30,500	4,526	40,026
Ian Mattioli	—	27,000	3,353	30,353
	15,000	137,500	19,207	171,707

The prospectus fee relates to services supplied by the Independent Directors in connection with the November 2015 prospectus, conditional upon the Company raising gross proceeds of £50m or more following publication of the prospectus, which each director has agreed to apply to acquire ordinary shares. Each Director acquired 5,000 shares in May 2016 at 104.9p per share.

	Period ended 31 March 2015			
	Payment on Admission £	Fees £	Social security costs £	Total £
David Hunter	13,164	42,500	7,227	62,891
Matthew Thorne	13,164	32,500	5,847	51,511
Barry Gilbertson	13,164	28,000	5,226	46,390
Ian Mattioli	—	26,000	3,222	29,222
	39,492	129,000	21,522	190,014

The payment on Admission was made for services supplied prior to Admission by the Independent Directors, which each director agreed to apply in the subscription of 10,000 ordinary shares at the issue price on Admission of 100p per share.

Directors' interests (audited)

At 31 March 2016 the directors had the following interests in the ordinary shares of the Company:

	No. shares	% holding
David Hunter	20,000	0.01%
Matthew Thorne	20,000	0.01%
Barry Gilbertson	20,000	0.01%
Ian Mattioli[22]	122,256	0.05%
	182,256	0.08%

There have been no changes in directors' direct interests in the ordinary shares of the Company during the year. No director has or has had any interest in any transactions which are or were unusual in their nature or conditions, or significant to the business of the Company and which were affected by the Company or remain in any respect outstanding or unperformed.

No loan or guarantee has been granted or provided by any member of the Company for the benefit of any director.

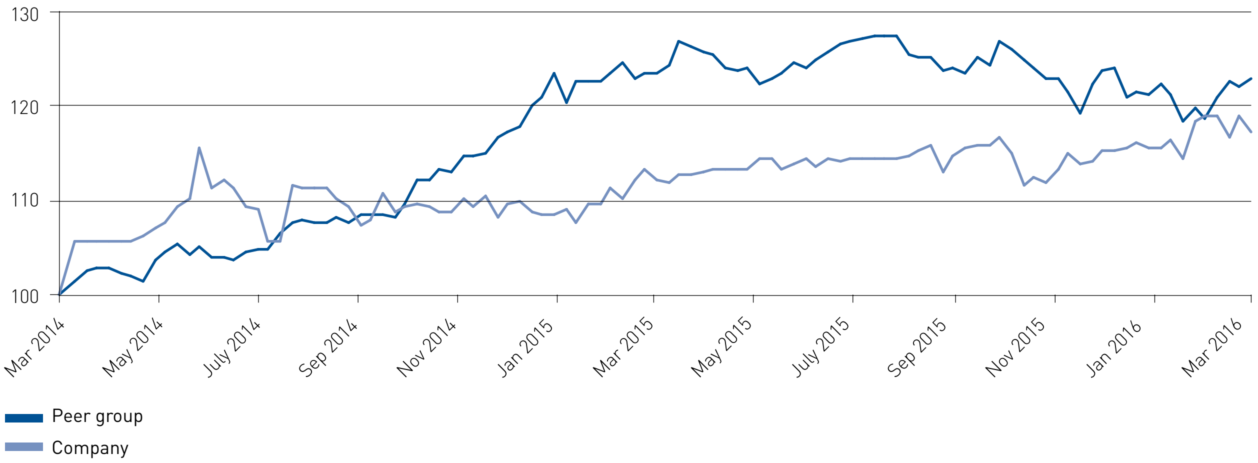
There are no restrictions agreed by any director on the disposal within a certain period of time of their holdings in the Company's securities. Restrictions on other transfers of ordinary shares are set out in the Directors' report.

22 Ian Mattioli together with his wife are beneficially interested in a total of 2,435,305 Ordinary Shares, representing 0.97% of the Company's issued share capital.

DIRECTORS' REMUNERATION REPORT CONTINUED

Total shareholder return performance

The graph below illustrates the total shareholder return from Admission to 31 March 2016 in terms of the change in value of an initial investment of £100 invested on 26 March 2014 in a holding of the Company's shares against the corresponding total shareholder returns from a hypothetical basket of shares in similar listed property investment companies.



Peers: FCPT, FCRE, PCTN, SREI, SLI, UKCM, EPIC

Benchmarking performance against the performance of the Company's peers is considered to be the most appropriate method of measuring the Company's relative performance, as required by the Regulations. The performance of the Company relative to its peers is discussed in the Investment Manager's report.

Approval

The Companies Act 2006 requires the auditor to report to the shareholders on certain parts of the Directors' remuneration report and to state whether, in their opinion, those parts of the report have been properly prepared in accordance with the Regulations. The parts of the Annual Report on remuneration that are subject to audit are indicated in that report.

This Directors' remuneration report was approved by the Board of Directors and signed on its behalf by:

David Hunter
Director
6 June 2016

DIRECTORS' REPORT

Report and financial statements
The Directors have pleasure in presenting their report together with the financial statements for the year ended 31 March 2016. The Governance report forms part of this report. For the purposes of this report, the Directors' responsibilities statement and the Independent auditor's report, the expression 'Company' means Custodian REIT plc and the expression 'Group' means the Company and its subsidiary.

The Company's principal activity is commercial property investment. The Strategic Report includes further information about the Company's principal activity, financial performance during the year and indications of likely future developments. The Company's subsidiary, Custodian Real Estate Limited, is dormant.

Details of significant events since the year end are contained in Note 21 to the financial statements.

The Directors believe they have discharged their responsibilities under section 414C of the Companies Act 2006 to provide a balanced and comprehensive review of the development and performance of the business.

Results and dividends
The Group profit for the year after taxation is set out in the statement of comprehensive income.

Four interim quarterly dividends totalling 6.0875p per share have been paid during the year. The Directors have approved a fourth quarterly dividend of 1.6625p per share in respect of the quarter ended 31 March 2016, which is expected to be paid on 30 June 2016, resulting in total dividends relating to the year ended 31 March 2016 achieving target of 6.25p per share.

Going concern
At 31 March 2016 the Company had net assets of £255.0m and had undrawn debt facilities of £9.0m. The Investment Manager intends to deploy the Company's cash and debt facilities to achieve its dividend targets, while ensuring it has sufficient liquidity to cover its short term liabilities. Therefore, the directors consider preparing the financial statements on a going concern basis to be appropriate.

Taxation
The Group operates as a REIT and hence profits and gains from the property investment business are normally expected to be exempt from corporation tax.

Directors
A list of the directors and their short biographies is shown in the Board of Directors and key Investment Manager personnel section of the Governance report.

The appointment and replacement of directors is governed by the Articles, the Code, the Companies Act and related legislation. The Articles themselves may be amended by special resolution of the shareholders.

Directors' fees and beneficial interests in the shares of the Company are disclosed in the Directors' remuneration report. During the year, no director had a material interest in a contract to which the Company or its subsidiary was a party (other than their own letter of appointment), requiring disclosure under the Companies Act 2006 other than in respect of Custodian Capital Limited and the IMA as disclosed in Note 19 to the financial statements.

Directors' indemnity
All directors and officers of the Company have the benefit of the indemnity provision contained in the Articles. The provision, which is a qualifying third party indemnity provision, was in force throughout the year and is currently still in force. The Company also purchased and maintained directors' and officers' liability insurance in respect of itself and its directors and officers as permitted by Section 234 of the Companies Act 2006, although no cover exists in the event directors or officers are found to have acted fraudulently or dishonestly.

Conflicts of interest
There are procedures in place to deal with any directors' conflicts of interest arising under section 175 of the Companies Act 2006 and such procedures have operated effectively.

Donations
No political or charitable donations were made during the year.

Capital structure
The Company's authorised and issued share capital is shown in Note 17 to the financial statements.

The ordinary shares rank pari passu in all respects. Save as may be agreed at each AGM, the ordinary shares have pre-emption rights in respect of any future issues of ordinary shares to the extent conferred by section 561 of the Companies Act 2006.

There are no restrictions on the transfer of ordinary shares in the Company, other than certain restrictions that may be imposed from time to time by laws and regulations and pursuant to the Listing Rules of the FCA, whereby certain directors and officers require approval to deal in ordinary shares of the Company.

DIRECTORS' REPORT CONTINUED

Capital structure continued
The Directors are not aware of any other agreements between holders of securities that may result in restrictions on the transfer of ordinary shares.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles and prevailing legislation. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

CREST
Custodian REIT plc share dealings are settled in CREST, the computerised system for the settlement of share dealings on the London Stock Exchange. CREST reduces the amount of documentation required and makes the trading of shares faster and more secure. CREST enables shares to be held in an electronic form instead of the traditional share certificates. CREST is voluntary and shareholders can keep their share certificates if they wish. This may be preferable for shareholders who do not trade in shares on a frequent basis.

Substantial shareholdings
At 6 June 2016 the Directors were aware that the following shareholders each owned 3% or more of the issued share capital:

Shareholder	Number of ordinary shares	Percentage holding[23]
BMO Global Asset Management (UK) (formerly F&C Asset Management)	16,984,606	6.8%
Investec Wealth & Investment	10,268,374	4.1%

Close company provisions
The Company is not a close company within the provisions of the Income and Corporation Taxes Act 1988.

Change of control
The Company has borrowing facilities provided by its bankers which include provisions which may require any outstanding borrowings to be repaid, altered or terminated upon the occurrence of a change of control in the Company.

Related party transactions
Details of related party transactions are given in Note 19 to the financial statements.

Environmental
The Board believes good environmental practices such as the recycling of paper waste support its strategy by enhancing the reputation of the Company. However, due to the nature of its business generally, the Company does not have a significant environmental impact.

Financial risk management
The Company's financial risk management is based upon sound economic objectives and good corporate practice. The Board has overall responsibility for risk management and internal control. The Board's process for identifying and managing risks is set out in more detail in the Governance report.

Since Admission the Company has sought to manage financial risk, to ensure sufficient liquidity is available to meet its identifiable needs and to invest cash assets safely and profitably. Short term flexibility is achieved through the use of bank facilities. The Company does not undertake any trading activity in financial instruments. All activities are transacted in Sterling. The Company does not engage in any hedging activities.

The Company reviews the credit quality of potential tenants and limits credit exposures accordingly. All trade receivables are subject to credit risk exposure. However, there is no specific concentration of credit risk as the amounts recognised represent income from a wide range of the Company's tenants.

The Company's financial risk management policy is further detailed in Note 20 to the financial statements.

Auditor
Deloitte, which has been the Group's auditor since 20 May 2014, has confirmed its willingness to continue in office as auditor in accordance with Section 489 of the Companies Act 2006. The Group is satisfied that Deloitte is independent and there are adequate safeguards in place to safeguard its objectivity. A resolution to reappoint Deloitte as the Group's auditor will be proposed at the forthcoming AGM.

23 Based on the issued share capital on 7 April 2016.

Directors' statement as to disclosure of information to the auditor
The directors who were members of the Board at the time of approving the Directors' report are listed in the Governance report. Having made enquiries of fellow directors and of the Company's auditor, each of these directors confirms that:

- To the best of each director's knowledge and belief, there is no relevant audit information of which the Company's auditor is unaware; and
- Each director has taken all steps they might reasonably be expected to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Annual General Meeting
The AGM of the Company will be held at Canaccord Genuity Limited, 88 Wood Street, London, EC2V 7QR on 26 July 2016 at 11:00am.

On a show of hands at a general meeting of the Company, every holder of ordinary shares present in person or by proxy and entitled to vote shall have one vote unless the proxy is appointed by more than one shareholder and has been instructed by one or more shareholders to vote for the resolution and by one or more shareholders to vote against the resolution, in which case the proxy has one vote for and one vote against. This is to reflect the Shareholders' Rights Regulations which have amended the Companies Act 2006.

On a poll, every member present in person or by proxy and entitled to vote shall have one vote for every ordinary share held. None of the ordinary shares carry any special voting rights with regard to control of the Company. The Notice of AGM specifies deadlines for exercising voting rights and appointing a proxy or proxies to vote in relation to resolutions to be passed at the AGM. The relevant proxy votes are counted and the number for, against or withheld in relation to each resolution are announced at the AGM.

Events since 31 March 2016
Details of significant events occurring after the end of the reporting year are given in Note 21 to the financial statements.

Approval
This Directors' report was approved by the Board of Directors and signed on its behalf by:

David Hunter
Director
6 June 2016

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the Directors to prepare consolidated and company financial statements for each financial year. The Directors are required to prepare consolidated financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU") and Article 4 of the IAS Regulation and have also chosen to prepare company financial statements in accordance with IFRSs as adopted by the EU.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that year. In preparing each of the Group and Company financial statements, International Accounting Standard 1 requires the directors to:

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- Make an assessment of the company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Responsibility statement
We confirm that to the best of our knowledge:

- The consolidated financial statements, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- The Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- The Annual Report and consolidated financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

Approval
This Directors' responsibilities statement was approved by the Board of Directors and signed on its behalf by:

David Hunter
Director
6 June 2016

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CUSTODIAN REIT PLC

For the year ended 31 March 2016

Opinion on financial statements of Custodian REIT plc

In our opinion:

- The financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 March 2016 and of the Group's profit for the year then ended;
- The Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- The parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the consolidated and Company statements of comprehensive income, the consolidated and Company statements of financial position, the consolidated and Company statements of cash flows, the consolidated and Company statements of changes in equity 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, and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in Note 2 to the Group financial statements, in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, the Group has also applied IFRSs as issued by the International Accounting Standards Board (IASB). In our opinion the Group financial statements comply with IFRSs as issued by the IASB.

Going concern and the Directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group

As required by the Listing Rules we have reviewed the directors' statement regarding the appropriateness of the going concern basis of accounting contained within Note 2.4 of the financial statements and the directors' statement on the longer-term viability of the Group contained within the Principal risks and uncertainties section of the Strategic Report.

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

- The Directors' confirmation on page 38 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- The disclosures on page 38 that describe those risks and explain how they are being managed or mitigated;
- The Directors' statement in Note 2.4 of the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and
- The Directors' explanation on page 39 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We agreed with the Directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CUSTODIAN REIT PLC CONTINUED

For the year ended 31 March 2016

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

Risk	How the scope of our audit responded to the risk
Valuation of investment property Valuation of investment property is an area of judgement which could materially affect the financial statements. The Group's investment property portfolio is £319.0m (2015: £207.3m). The Group's accounting policy in Note 2 states that investment property is held at fair value. In determining the fair value, the external valuers make a number of key estimates and assumptions, in particular assumptions in relation to market comparable yields and estimates in relation to future rental income increases or decreases, void periods and purchaser costs. Certain of these estimates and assumptions require input from the Investment Manager. Some of these estimates and assumptions are subject to market forces and will change over time.	As set out in the Audit Committee report we met with the third party valuers, appointed by those charged with governance of Custodian REIT plc. We obtained an understanding of the property valuation process and methodology and assessed the competence, capability and objectivity of the valuers. With the assistance of a specialist member of the audit team who is a chartered surveyor, we reviewed the significant assumptions in the valuation process, including yield, lease lengths and break clauses, and tested a sample of properties through benchmarking against appropriate property indices. We verified the integrity of a sample of information provided to the valuers by management relating to rental income, occupancy and life of the lease by agreement to lease contracts.
Loan covenant compliance As disclosed in Note 16 at 31 March 2016, £66.0m (31 March 2015: £24.3m) had been drawn from total facilities of £75.0m (2015: £45.0m). Loan covenants were agreed with the lender and failure to meet the covenants would result in further borrowing being suspended which might lead to a liquidity issue. A significant risk arises as forecasts inherently include assumptions and judgements applied by management in relation to the timing of receipt and payment of cash flows.	We tested compliance with loan covenants at the balance sheet date. We assessed the Investment Manager's forecasts and assumptions and judgements for ongoing covenant compliance and available headroom on these covenants and existing finance facilities. We also confirmed that adequate disclosures have been made in the Annual Report.
Revenue recognition The Company's revenue is generated from rental income of £18.6m (2015: £11.2m). As set out in Note 4 to the financial statements, the Company's accounting policy is to account for the rental income from properties owned by the Company on a straight line basis over the term of the lease. Lease incentives are amortised on a straight-line basis over the lease term. There is a risk that lease incentives such as rent free periods or stepped rent agreements may not be treated appropriately to ensure rental income is recognised in each accounting period on straight line basis over the lease length. We have also defined revenue recognition risk as arising from revenue cut-off errors of rental income near the year end.	We tested a sample of rental revenue recognised to the relevant rental agreements and assessed whether revenue appropriately reflected any rent free or stepped rent agreements. In addition, we performed analytical review procedures on both the rental income and deferred rental income to assess the accuracy of the balances. We also reviewed a sample of the new tenant agreements in the period to identify lease incentive terms and assess the appropriateness of the revenue recognition policies adopted. We tested the cut-off of revenue recognised near the year end date to ensure the transactions have been recognised in the correct period.

Risk	How the scope of our audit responded to the risk
Compliance with the REIT regime As a REIT, the Company must ensure that it monitors its compliance with the requirements of the regime. If the Company breaches one or more of the REIT regime conditions, the penalty can range from automatic expulsion from the regime to additional tax liabilities for the REIT.	We obtained copies of the Investment Manager's calculations to support compliance with these conditions which we recalculated. We also agreed compliance with these conditions by reference to the REIT requirements at the balance sheet date, and in the forecast period of 12 months.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee, discussed in its report.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Our application of materiality

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

We determined materiality for the Group to be £5.1m (2015: £3.57m) for the statement of financial position testing and £1.3m (2015: £0.8m) for testing the underlying items of the statement of comprehensive income. We have applied 2% (2015: 2%) to net assets for the statement of financial position testing as detailed above to arrive at our materiality. This percentage takes into account our knowledge of the Group, our assessment of audit risks and the reporting requirements for the financial statements. For testing the statement of comprehensive income 10% (2015: 10%) of the underlying profits benchmark was applied. We have also benchmarked these percentages and approach to materiality to other listed REITs based on information publicly disclosed in the audit reports and found them to be consistent.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £102,000 (2015: £72,000) for the statement of financial position testing and £26,000 (2015: £17,000) for the statement of comprehensive income, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the Group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level.

The Group consists of the parent company and a dormant subsidiary. All audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CUSTODIAN REIT PLC CONTINUED

For the year ended 31 March 2016

Opinion on other matters prescribed by the Companies Act 2006	In our opinion: • The part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and • The information given in the Strategic Report and the Directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements.
Matters on which we are required to report by exception	
Adequacy of explanations received and accounting records	Under the Companies Act 2006 we are required to report to you if, in our opinion: • We have not received all the information and explanations we require for our audit; or • Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or • The parent company financial statements are not in agreement with the accounting records and returns. We have nothing to report in respect of these matters.
Directors' remuneration	Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' remuneration report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.
Corporate Governance Statement	Under the Listing Rules we are also required to review the part of the Governance report relating to the company's compliance with certain provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.
Our duty to read other information in the Annual Report	Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is: • Materially inconsistent with the information in the audited financial statements; or • Apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or • 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 confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the 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 and the parent company'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 financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited 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.

Jonathan Dodworth (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Birmingham, UK
6 June 2016

CONSOLIDATED AND COMPANY STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 31 March 2016

Group and Company	Note	Year ended 31 March 2016 £000	Period ended 31 March 2015 £000
Revenue	4	**19,012**	11,570
Investment management fee		**(2,200)**	(1,542)
Operating expenses of rental property			
– rechargeable to tenants		**(451)**	(342)
– directly incurred		**(572)**	(373)
Professional fees		**(356)**	(494)
Directors' fees		**(172)**	(190)
Administrative expenses		**(100)**	(101)
Expenses		**(3,851)**	(3,042)
Operating profit before financing and revaluation of investment properties		**15,161**	8,528
Analysed as:			
Operating profit before exceptional items		**15,161**	8,747
Exceptional costs of Admission	6	**—**	(219)
		15,161	8,528
Profit on disposal of investment properties		**56**	269
Unrealised gains/(losses) on revaluation of investment properties:			
– relating to property revaluations	11	**3,031**	6,083
– relating to costs of acquisition	11	**(5,768)**	(5,844)
Net (losses)/gains on investment properties		**(2,681)**	508
Operating profit before financing		**12,480**	9,036
Finance income	7	**221**	84
Finance costs	8	**(1,494)**	(373)
Net finance costs		**(1,273)**	(289)
Profit before tax		**11,207**	8,747
Income tax expense	9	**—**	(2)
Profit for the year and total comprehensive income for the year, net of tax		**11,207**	8,745
Attributable to:			
Owners of the Company		**11,207**	8,745
Earnings per ordinary share:			
Basic and diluted (pence per share)	3	**5.5**	6.0
EPRA (pence per share)	3	**6.8**	5.6

The profit for the year arises from the Company's continuing operations.

CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION

As at 31 March 2016
Registered number: 8863271

		Group		Company	
	Note	**31 March 2016 £000**	31 March 2015 £000	**31 March 2016 £000**	31 March 2015 £000
Non-current assets					
Investment properties	11	**318,966**	207,287	**318,966**	207,287
Investments	12	**—**	—	**—**	—
Total non-current assets		**318,966**	207,287	**318,966**	207,287
Trade and other receivables	13	**4,518**	1,072	**4,518**	1,072
Cash and cash equivalents	15	**5,455**	849	**5,455**	849
Total current assets		**9,973**	1,921	**9,973**	1,921
Total assets		**328,939**	209,208	**328,939**	209,208
Equity					
Issued capital	17	**2,512**	1,776	**2,512**	1,776
Share premium	17	**68,874**	175,009	**68,874**	175,009
Retained earnings	17	**183,674**	3,201	**183,674**	3,201
Total equity attributable to equity holders of the Company		**255,060**	179,986	**255,060**	179,986
Non-current liabilities					
Borrowings	16	**65,143**	23,811	**65,143**	23,811
Other payables		**571**	—	**571**	—
Total non-current liabilities		**65,714**	23,811	**65,714**	23,811
Current liabilities					
Trade and other payables	14	**3,681**	2,292	**3,681**	2,292
Deferred income		**4,484**	3,119	**4,484**	3,119
Total current liabilities		**8,165**	5,411	**8,165**	5,411
Total liabilities		**73,879**	29,222	**73,879**	29,222
Total equity and liabilities		**328,939**	209,208	**328,939**	209,208

These consolidated and Company financial statements of Custodian REIT plc were approved and authorised for issue by the Board of Directors on 6 June 2016 and are signed on its behalf by:

David Hunter
Director

CONSOLIDATED AND COMPANY STATEMENTS OF CASH FLOWS

For the year ended 31 March 2016

Group and Company	Note	Year ended 31 March 2016 £000	Period ended 31 March 2015 £000
Operating activities			
Operating profit		**12,480**	9,036
Adjustments for:			
Increase in fair value of investment property	11	**(3,031)**	(6,083)
Profit on disposal of investment properties		**(56)**	(269)
Income tax	9	**—**	(2)
Cash flows from operating activities before changes in working capital and provisions		**9,393**	2,682
Increase in trade and other receivables		**(3,615)**	(1,072)
Increase in trade and other payables		**2,399**	5,326
Cash generated from operations		**8,177**	6,936
Interest paid	8	**(1,307)**	(258)
Net cash flows from operating activities		**6,870**	6,678
Investing activities			
Purchase of investment property		**(109,674)**	(125,728)
Disposal of investment property		**1,821**	1,784
Interest received	7	**22**	54
Net cash from investing activities		**(107,831)**	(123,890)
Financing activities			
Proceeds from the issue of share capital	17	**77,719**	102,620
Payment of costs of share issue		**(1,632)**	(2,824)
New borrowings	16	**41,700**	23,811
Dividends paid	10	**(12,220)**	(5,546)
Net cash from financing activities		**105,567**	118,061
Net increase in cash and cash equivalents		**4,606**	849
Cash and cash equivalents at start of the year/period		**849**	—
Cash and cash equivalents at end of the year/period		**5,455**	849

CONSOLIDATED AND COMPANY STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 March 2016

	Note	Issued capital £000	Share premium £000	Retained earnings £000	Total equity £000
As at 24 March 2014		**50**	**—**	**—**	**50**
Profit for the period		—	—	8,745	8,745
Total comprehensive income for year		—	—	8,745	8,745
Transactions with owners of the Company, recognised directly in equity					
Dividends	10	—	—	(5,546)	(5,546)
Issue of share capital	17	1,726	175,009	—	176,735
Profit on disposal of own shares	17	—	—	2	2
As at 31 March 2015		**1,776**	**175,009**	**3,201**	**179,986**
Profit for the year		—	—	11,207	11,207
Total comprehensive income for year		—	—	11,207	11,207
Transactions with owners of the Company, recognised directly in equity					
Dividends	10	—	—	(12,220)	(12,220)
Issue of share capital	17	736	75,351	—	76,087
Transfer of reserves	17	—	(181,486)	181,486	—
As at 31 March 2016		**2,512**	**68,874**	**183,674**	**255,060**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2016

1. Corporate information

The Company is a public limited company incorporated and domiciled in England and Wales, whose shares are publicly traded on the London Stock Exchange plc's main market for listed securities. The consolidated financial statements have been prepared on a historical cost basis, except for the revaluation of investment properties, and are presented in pounds sterling with all values rounded to the nearest thousand pounds (£000), except when otherwise indicated. The consolidated financial statements were authorised for issue in accordance with a resolution of the Directors on 6 June 2016.

2. Basis of preparation and accounting policies

2.1. Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards adopted by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB (together "IFRS") as adopted by the European Union, and in accordance with the requirements of the Companies Act applicable to companies reporting under IFRS, and therefore they comply with Article 4 of the EU IAS Regulation.

The prior period financial information has been prepared for the 53 week period from 25 March 2014 to 31 March 2015.

Certain statements in this report are forward looking statements. By their nature, forward looking statements involve a number of risks, uncertainties or assumptions that could cause actual results or events to differ materially from those expressed or implied by those statements. Forward looking statements regarding past trends or activities should not be taken as representation that such trends or activities will continue in the future. Accordingly, undue reliance should not be placed on forward looking statements.

2.2. Basis of consolidation

The consolidated financial statements consolidate those of the parent company and its subsidiary. The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. The subsidiary has a reporting date in line with the Company.

All transactions and balances between group companies are eliminated on consolidation, including unrealised gains and losses on transactions between group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of the subsidiary are adjusted where necessary to ensure consistency with the accounting policies adopted by the group. Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

2.3. Application of new and revised International Financial Reporting Standards

During the year the Company has applied a number of amendments to IFRSs and a new interpretation issued by the International Accounting Standards Board (IASB) that are mandatorily effective for accounting periods beginning on or after 31 March 2015:

- Annual improvements to IFRSs 2010- 2012 Cycle; and
- Annual improvements to IFRSs 2011- 2013 Cycle.

2. Basis of preparation and accounting policies continued

2.3. Application of new and revised International Financial Reporting Standards continued

The application of the above amendments and interpretations has had no impact on the disclosures or on the amounts recognised in the Company's financial statements. At the date of authorisation of these financial statements, the following new and revised IFRSs which have not been applied in these financial statements were in issue but not yet effective:

- IFRS 9 'Financial Instruments';
- IFRS 15 'Revenue from Contracts with Customers';
- Amendments to IAS 16 and IAS 38 'Clarification of Acceptable Methods of Depreciation and Amortisation';
- IAS 27 'Equity Method in Separate Financial Statements';
- IFRS 10, IFRS 12 and IAS 28 'Investment Entities: Applying the Consolidation Exemption'; and
- Annual Improvements to IFRSs: 2012-2014 Cycle 'IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, IFRS 7 Financial Instruments: Disclosures, IAS 19 Employee Benefits and IAS 34 Interim Financial Reporting'.

Other than to expand certain disclosures within the financial statements, the Directors do not anticipate that the application of these standards, amendments and interpretations will have a material impact on the Company's financial statements in future periods, except that IFRS 9 will impact both the measurement and disclosures of financial instruments and IFRS 15 may have an impact on revenue recognition and related disclosures. Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 and IFRS 15 until a detailed review has been completed.

2.4. Significant accounting policies

The principal accounting policies adopted by the Company and applied to these financial statements are set out below.

Going concern

The Directors believe the Company is well placed to manage its business risks successfully. The Company's projections show that the Company should continue to be cash generative and be able to operate within the level of its current financing arrangements. Accordingly, the Directors continue to adopt the going concern basis for the preparation of the financial statements.

Income recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duties.

Rental income from operating leases on properties owned by the Company is accounted for on a straight line basis over the term of the lease. Rental income excludes service charges and other costs directly recoverable from tenants.

Lease incentives are amortised on a straight-line basis over the lease term.

Revenue and profits on the sale of properties are recognised on the completion of contracts. The amount of profit recognised is the difference between the sale proceeds and the carrying amount.

Finance income relates to amounts receivable on ongoing development funding contracts.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2016

2. Basis of preparation and accounting policies continued

2.4. Significant accounting policies continued

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties are initially recognised at cost including direct transaction costs. Investment properties are subsequently valued externally on an open market basis at the reporting date and recorded at valuation. Any surplus or deficit arising on revaluing investment properties is recognised in the statement of comprehensive income in the year in which it arises. Dilapidation receipts are held in the statement of financial position and offset against subsequent associated expenditure. Any ultimate gains or shortfalls are measured by reference to previously published valuations and recognised in the statement of comprehensive income, offset against any directly corresponding movement in fair value of the investment property to which they relate.

Group undertakings

Investments are included in the statement of financial position at cost less any provision for impairment.

Financial assets

The Company's financial assets include cash and cash equivalents and trade and other receivables. All financial assets are initially recognised at fair value plus transaction costs, when the Company becomes party to the contractual provisions of the instrument. Interest resulting from holding financial assets is recognised in the statement of comprehensive income on an accruals basis.

Loans and receivables are measured subsequent to initial recognition at amortised cost using the effective interest method, less provision for impairment. Provision for impairment of trade and other receivables is made when objective evidence is received that the Company will not be able to collect all amounts due to it in accordance with the original terms of the receivable. The amount of the impairment is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective rate computed at initial recognition. Any change in value through impairment or reversal of impairment is recognised in the statement of comprehensive income.

A financial asset is derecognised only where the contractual rights to the cash flows from the asset expire or the financial asset is transferred and that transfer qualifies for de-recognition. A financial asset is transferred if the contractual rights to receive the cash flows of the asset have been transferred or the Company retains the contractual rights to receive the cash flows of the asset but assumes a contractual obligation to pay the cash flows to one or more recipients. A financial asset that is transferred qualifies for de-recognition if the Company transfers substantially all the risks and rewards of ownership of the asset.

Cash and cash equivalents

Cash and cash equivalents include cash in hand and demand deposits, and other short term highly liquid investments that are readily convertible into a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity investments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Share capital represents the nominal value of equity shares issued. Share premium represents the excess over nominal value of the fair value of the consideration received for equity shares, net of direct issue costs.

Retained earnings include all current and prior period results as disclosed in the statement of comprehensive income. Retained earnings include realised and unrealised profits. Profits are considered unrealised where they arise from movements in the fair value of investment properties that are considered to be temporary rather than permanent.

2. Basis of preparation and accounting policies continued

2.4. Significant accounting policies continued

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the fair value of proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlements or redemption and direct issue costs, are accounted for on an accruals basis in the statement of comprehensive income using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables

Trade payables are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

Leases

Payments on operating lease agreements where the Company is lessor are recognised as an expense on a straight-line basis over the lease term. Payments on operating lease agreements where the Company is lessee are charged to the income statement on a straight-line basis over the term of the lease.

Exceptional items

Certain items have been disclosed as exceptional in the income statement where they relate to Admission and are therefore considered to be one off costs, as set out in Note 6 to the financial statements.

Segmental reporting

An operating segment is a distinguishable component of the Company that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Company's chief operating decision maker to make decisions about the allocation of resources and assessment of performance and about which discrete financial information is available. As the chief operating decision maker reviews financial information for, and makes decisions about the Company's investment properties and properties held for trading as a portfolio, the Directors have identified a single operating segment, that of investment in commercial properties.

2.5. Key sources of judgements and estimation uncertainty

The preparation of the financial statements requires the Company to make estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities. If in the future such estimates and assumptions, which are based on the Directors' best judgement at the date of preparation of the financial statements, deviate from actual circumstances, the original estimates and assumptions will be modified as appropriate in the period in which the circumstances change. The areas where a higher degree of judgement or complexity arises, or where assumptions and estimates are significant to the financial statements, are discussed below.

Valuation of properties

Investment properties are valued at the reporting date at fair value. Where investment properties are being redeveloped the property continues to be treated as an investment property. Surpluses and deficits attributable to the Company arising from revaluation are recognised in the statement of comprehensive income. Valuation surpluses reflected in retained earnings are not distributable until realised on sale.

The Company considers valuations performed by independent valuers in determining the fair value of its investment properties. The valuations are based upon assumptions including future rental income, anticipated maintenance costs and appropriate discount rates. The valuers also make reference to market evidence of transaction prices for similar properties.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2016

3. Earnings per ordinary share

Basic EPS amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS amounts are calculated by dividing the net profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. There are no dilutive instruments. Shares issued after the year end are disclosed in Note 21.

The European Public Real Estate Association ("EPRA") has issued recommended bases for the calculation of EPS which the directors consider is a better indicator of performance.

	Year ended 31 March 2016	Period ended 31 March 2015
Net profit and diluted net profit attributable to equity holders of the Company (£000)	**11,207**	8,745
Net losses/(gains) on investment properties (£000)	**2,681**	(508)
EPRA net profit attributable to equity holders of the Company (£000)	**13,888**	8,237
Weighted average number of ordinary shares:		
Issued ordinary shares at start of the year	**177,605,659**	5,000,000
Effect of shares issued during the year	**26,590,709**	141,061,038
Basic and diluted weighted average number of shares	**204,196,368**	146,061,038
Basic and diluted EPS (pence)	**5.5**	6.0
EPRA EPS (pence)	**6.8**	5.6

4. Revenue

	Year ended 31 March 2016 £000	Period ended 31 March 2015 £000
Gross rental income from investment properties	**18,561**	11,228
Income from recharges to tenants	**451**	342
	19,012	11,570

5. Operating profit

Operating profit is stated after charging/(crediting):

	Year ended 31 March 2016 £000	Period ended 31 March 2015 £000
Profit on disposal of investment property	**(56)**	(269)
Net losses/(gains) on revaluation of investment properties	**2,737**	(239)
Fees payable to the Company's Auditor and their associates for the audit of the Company's annual financial statements	**52**	102
Fees payable to the Company's Auditor and its associates for other services	**616**	271

Fees payable to the Company's auditor, Deloitte LLP, are detailed in the Audit Committee report.

6. Exceptional items

One-off costs incurred in the period ended 31 March 2015 on Admission totalling £2.40m of which £0.22m was recognised in the statement of comprehensive income and £2.18m was taken to the share premium account as being directly related to the issue of new shares.

7. Finance income

	Year ended 31 March 2016 £000	Period ended 31 March 2015 £000
Bank interest	**22**	54
Finance income	**199**	30
	221	84

8. Finance costs

	Year ended 31 March 2016 £000	Period ended 31 March 2015 £000
Amortisation of arrangement fees on debt facilities	**187**	115
Bank interest	**1,307**	258
	1,494	373

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2016

9. Income tax

The tax charge assessed for the year is lower than the standard rate of corporation tax in the UK during the year of 20.0%. The differences are explained below:

	Year ended 31 March 2016 £000	Period ended 31 March 2015 £000
Profit before income tax	**11,207**	8,747
Tax charge on profit at a standard rate of 20.0% (2015: 21.0%)	**2,241**	1,837
Effects of:		
REIT tax exempt rental profits and gains	**(2,241)**	(1,835)
Income tax expense	**—**	2
Effective income tax rate	**0.0%**	0.0%

The Company operated as a REIT from 27 March 2014 and hence profits and gains from the property investment business since that date are normally exempt from corporation tax.

The UK Government has reduced the rate of corporation tax from 23% to 21% with effect from 1 April 2014, from 21% to 20% effective from 1 April 2015, from 20% to 19% effective from 1 April 2017 and from 19% to 18% effective from 1 April 2020.

10. Dividends

	Year ended 31 March 2016 £000	Period ended 31 March 2015 £000
Interim dividends paid on ordinary shares for the quarter ended:		
– 31 March 2015: 1.5p (31 March 2014: nil)	**2,672**	—
– 30 June 2015: 1.5p (30 June 2014: 1.25p)	**2,782**	1,650
– 30 September 2015: 1.5p (30 September 2014: 1.25p)	**2,900**	1,948
– 31 December 2015: 1.5875p (31 December 2014: 1.25p)	**3,866**	1,948
	12,220	5,546

The Directors propose that the Company pays a fourth interim dividend relating to the year ended 31 March 2016 of 1.6625p per ordinary share. This dividend has not been included as a liability in these financial statements. The fourth interim dividend is expected to be paid on 30 June 2016 to shareholders on the register at the close of business on 5 May 2016.

11. Investment properties

	£000	£000
At 24 March 2014		—
Additions		208,563
Disposals		(1,515)
Property revaluations	6,083	
Acquisition costs	(5,844)	
Net revaluation gain		239
As at 31 March 2015		207,287
Additions		116,181
Disposals		(1,765)
Property revaluations	3,031	
Acquisition costs	(5,768)	
Net revaluation gain		(2,737)
As at 31 March 2016		**318,966**

Included in investment properties is £4.0m relating to ongoing development fundings, of which £3.2m completed following the year end.

The carrying value at 31 March 2016 comprises freehold and leasehold properties summarised as follows:

Investment properties	Freehold £000	Leasehold £000	**Total £000**
Cost	278,818	44,080	**322,898**
Valuation (deficit)/gain	(3,765)	1,598	**(2,167)**
Disposals	(415)	(1,350)	**(1,765)**
At 31 March 2016	274,638	44,328	**318,966**

The investment properties are stated at the Directors' estimate of their 31 March 2016 fair values. Lambert Smith Hampton Group Limited ("LSH"), a professionally qualified independent valuer, valued the properties as at 31 March 2016 in accordance with the Appraisal and Valuation Standards published by the Royal Institution of Chartered Surveyors. LSH has recent experience in the relevant location and category of the properties being valued.

Investment properties have been valued using the investment method which involves applying a yield to rental income streams. Inputs include yield, current rent and estimated rental value ("ERV"). For the year end valuation, the equivalent yields used ranged from 5.0% to 10.1%. Valuation reports are based on both information provided by the Company e.g. current rents and lease terms which are derived from the Company's financial and property management systems are subject to the Company's overall control environment, and assumptions applied by the valuer e.g. ERVs and yields. These assumptions are based on market observation and the valuer's professional judgement. In estimating the fair value of the property, the highest and best use of the properties is their current use.

11. Investment properties continued

All other factors being equal, a higher equivalent yield would lead to a decrease in the valuation of investment property, and an increase

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2016

in the current or estimated future rental stream would have the effect of increasing capital value, and vice versa. However, there are interrelationships between unobservable inputs which are partially determined by market conditions, which would impact on these changes.

12. Investments

Shares in subsidiaries

Company

Name and company number	Country of registration and incorporation	Principal activity	Ordinary shares held	**At 31 March 2015 and 31 March 2016 £**
Custodian Real Estate Limited (Company number 8882372)	England and Wales	Dormant	100%	**2**

13. Trade and other receivables

	31 March 2016 £000	31 March 2015 £000
Trade receivables	**1,019**	451
Other receivables	**1,857**	92
Prepayments and accrued income	**1,642**	529
	4,518	1,072

The Company has provided fully for those receivable balances that it does not expect to recover. This assessment has been undertaken by reviewing the status of all significant balances that are past due and involves assessing both the reason for non-payment and the creditworthiness of the counterparty. Included within accrued income are balances totalling £1.35m which are to be held for a period over one year.

14. Trade and other payables

	31 March 2016 £000	31 March 2015 £000
Falling due in less than one year:		
Trade and other payables	**437**	338
Social security and other taxes	**1,231**	687
Accruals	**1,566**	1,037
Rental deposits	**447**	230
	3,681	2,292

The Directors consider that the carrying amount of trade and other payables approximates to their fair value. Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. For most suppliers interest is charged if payment is not made within the required terms. Thereafter, interest is chargeable on the outstanding balances at various rates. The Company has financial risk management policies in place to ensure that all payables are paid within the credit timescale.

15. Cash and cash equivalents

	31 March 2016 £000	31 March 2015 £000

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Cash and cash equivalents	**5,455**	849

Cash and cash equivalents include £0.47m (2015: £0.23m) of restricted cash in the form of rental deposits and retentions held on behalf of tenants, and £0.21m of restricted cash held within charged bank accounts relating to the share premium reduction detailed in Note 17, which has been utilised since the year end.

16. Borrowings

	31 March 2016 £000	31 March 2015 £000
Falling due in more than one year:		
Bank borrowings	**66,000**	24,300
Costs incurred in the arrangement of bank borrowings	**(857)**	(489)
	65,143	23,811

On 25 February 2014, the Company agreed a RCF of £25m with Lloyds Bank plc for a term of five years. On 13 November 2015, the Company and Lloyds Bank plc entered into an agreement to increase the total funds available under the RCF from £25m to £35m and extend the termination date to 13 November 2020. The RCF is secured by way of a first charge over a discrete portfolio of properties, providing the lender with a maximum LTV ratio of 50% on those properties specifically charged to it and a floating charge. The interest cover will be at least 250% LTV. Under the terms of agreement, the Company pays interest of 2.45% above three-month LIBOR per annum on the outstanding amounts utilised under the agreement from time to time. At 31 March 2016, £26.0m of the RCF had been drawn down to fund property acquisitions.

On 9 December 2014 the Company agreed a £20m term loan with Lloyds Bank plc ("the Lloyds Loan"), secured by way of a first charge over a discrete portfolio of properties, providing the lender with a maximum LTV ratio of 50% on those properties specifically charged to it and a floating charge. The interest cover will be at least 250% LTV. The loan attracts interest of 1.95% above three-month LIBOR per annum and is repayable on 10 October 2019. On 6 June 2016 the Lloyds Loan was repaid in full, incurring no early repayment charges.

On 14 August 2015, the Company and Scottish Widows Limited, with Lloyds Bank plc acting as agent, entered into an agreement for Scottish Widows Limited to provide the Company with a term loan facility of £20m, repayable on 14 August 2025. Under the terms of the agreement, the Company will pay fixed interest of 3.935% per annum on the balance.

All of the Company's borrowing facilities require minimum interest cover of 250% of the net rental income of the security pool. The maximum LTV of the Company combining the value of all property interests (including the properties secured against the facilities) must be no more than 35%.

On 6 June 2016, the Company and Scottish Widows Limited, with Lloyds Bank plc acting as agent, entered into an agreement for Scottish Widows Limited to provide the Company with a new term loan facility of £45m, repayable on 6 June 2028. Under the terms of the agreement, the Company will pay fixed interest of 2.987% per annum on the balance. The proceeds from this new loan were partially used to repay the Lloyds Loan.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2016

17. Share capital

Issued share capital	Ordinary shares of 1p	£000
At 25 March 2014	131,989,310	1,320
Issue of share capital	45,616,349	456
At 31 March 2015	177,605,659	1,776
Issue of share capital	73,636,412	736
At 31 March 2016	**251,242,071**	**2,512**

On 5 November 2015 the Board announced a Placing, Open Offer and Offer for Subscription and a 12 month Placing Programme of up to 100m new Ordinary Shares. The Company raised £44.25m (before costs and expenses) through a placing of 42,466,412 new ordinary shares in the Company on 30 November 2015 under the Placing, Open Offer and Offer for Subscription.

During the year, the Company raised £33.5m (before costs and expenses) through further placings of 31,170,000 new ordinary shares.

The Company has made further issues of new shares since the year end, which are detailed in Note 21 to the financial statements.

Rights, preferences and restrictions on shares

All ordinary shares carry equal rights and no privileges are attached to any shares in the Company. All the shares are freely transferable, except as otherwise provided by law. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

At the AGM of the Company held on 22 July 2015, the Board was given authority to issue up to 120,670,439 shares, pursuant to section 551 of the Companies Act 2006. This authority is intended to satisfy market demand for the ordinary shares and raise further monies for investment in accordance with the Company's investment policy. 67,486,412 ordinary shares have been issued under this authority since 22 July 2015, leaving an unissued balance of 53,184,027 at 31 March 2016. In addition, the Company was granted authority to make market purchases of up to 18,100,565 ordinary shares under section 701 of the Companies Act 2006.

At 31 March 2015, an unissued balance of 122,394,341 ordinary shares remained from the authority granted to the Board at the previous AGM of the Company held on 21 January 2015.

17. Share capital continued

On 14 August 2015, registration was completed of the Chancery Division of the High Court of Justice's approval of the cancellation of the Company's share premium account, standing at £181,485,649 as of 22 July 2015. Further details, including the rationale for the cancellation, are set out in the Notice of Annual General Meeting available on the Company's website.

Other reserves	Share premium account £000	Retained earnings £000
At 25 March 2014		
Shares issued during the period	177,833	—
Costs of share issue	(2,824)	—
Profit for the period	—	8,745
Dividends	—	(5,546)
Profit on sale of own shares taken directly to equity	—	2
At 31 March 2015	175,009	3,201
Shares issued during the year	76,983	—
Costs of share issue	(1,632)	—
Profit for the year	—	11,207
Dividends paid	—	(12,220)
Transfer of reserves	(181,486)	181,486
At 31 March 2016	**68,874**	**183,674**

The following table describes the nature and purpose of each reserve within equity:

Reserve	**Description and purpose**
Share premium	Amounts subscribed for share capital in excess of nominal value less any associated issue costs that have been capitalised.
Retained earnings	All other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere.

18. Commitments and contingencies

Company as lessor

The Company lets all investment properties under operating leases. The aggregated future minimum rentals receivable under all non-cancellable operating leases are:

	31 March 2016 £000	31 March 2015 £000
Not later than one year	**21,782**	15,257
Later than one year but not later than five years	**63,657**	48,407
Later than five years	**55,816**	46,840
	141,255	110,504

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2016

19. Related party transactions

Save for transactions described below, the Company is not a party to, nor had any interest in, any other related party transaction during the year.

Transactions with directors

Each of the directors is engaged under a letter of appointment with the Company and does not have a service contract with the Company. Under the terms of their appointment, each director is required to retire by rotation and seek re-election at least every three years. Each director's appointment under their respective letter of appointment is terminable immediately by either party (the Company or the director) giving written notice and no compensation or benefits are payable upon termination of office as a director of the Company becoming effective.

Investment Management Agreement

On 25 February 2014 the Company entered into a three year IMA with the Investment Manager, under which the Investment Manager has been appointed as AIFM with responsibility for the property management of the Company's assets, subject to the overall supervision of the Directors. The Investment Manager manages the Company's investments in accordance with the policies laid down by the Board and the investment restrictions referred to in the IMA.

Ian Mattioli is Chief Executive of Mattioli Woods, the parent company of the Investment Manager, and is a director of the Investment Manager. As a result, Ian Mattioli is not independent. The Company Secretary, Nathan Imlach, is also a director of Mattioli Woods and the Investment Manager.

The Investment Manager is paid a fund and asset management fee calculated by reference to the NAV of the Company each quarter as follows:

- 0.9% of the NAV of the Company as at the relevant quarter day which is less than or equal to £200m divided by 4; plus
- 0.75% of the NAV of the Company as at the relevant quarter day which is in excess of £200m divided by 4.

The Investment Manager has agreed to provide day-to-day administration of the Company and act as secretary to the Company, including maintenance of accounting records and preparing annual accounts of the Company. The Company pays the Investment Manager an administrative fee equal to 0.125% of the NAV of the Company at the end of the quarter, subject to a minimum of £44,000 per quarter (adjusted for RPI).

The IMA is terminable by either party by giving not less than 12 months' prior written notice to the other, which notice may only be given after the expiry of the initial three year term. The IMA may also be terminated on the occurrence of an insolvency event in relation to either party, if the Investment Manager is fraudulent, grossly negligent or commits a material breach which, if capable of remedy, is not remedied within three months, or on a force majeure event continuing for more than 90 days.

The Investment Manager receives a fee of 0.25% of the aggregate gross proceeds from any issue of new shares in consideration of the marketing services it provides to the Company.

During the year the Company paid the Investment Manager £2.72m in respect of annual management charges, administrative fees and marketing fees.

The Company owed £0.02m to the Investment Manager at 31 March 2016 (2015: £nil) relating to marketing services and recharged insurance.

19. Related party transactions continued

Acquisition of properties

On 26 March 2014 the Company acquired a portfolio of 48 properties held in a syndicated structure by clients of Mattioli Woods ("the Portfolio") including Ian Mattioli, Nathan Imlach and Richard Shepherd-Cross and the private pension schemes of Ian Mattioli, Nathan Imlach and Richard Shepherd-Cross.

The Portfolio included MW House and Gateway House at Grove Park, Enderby, which are partially let to Mattioli Woods. Mattioli Woods paid the Company rentals of £0.41m (2015: £0.35m) during the year and owed the Company £nil at 31 March 2016 (2015: £nil).

Ian Mattioli, Nathan Imlach, Richard Shepherd-Cross and the private pension schemes of Ian Mattioli, Nathan Imlach and Richard Shepherd-Cross continue to have a beneficial interest in the Company.

20. Financial risk management

Capital risk management

The Company manages its capital to ensure it can continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance within the parameters of its investment policy. The capital structure of the Company consists of debt, which includes the borrowings disclosed below, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued ordinary share capital, share premium and retained earnings.

Gearing ratio

The Board reviews the capital structure of the Company on a regular basis. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital. The Company has a target gearing ratio of 25% determined as the proportion of debt (net of unrestricted cash) to investment property. The gearing ratio at the year end was 19.1% (2015: 11.4%).

Externally imposed capital requirements

The Company is not subject to externally imposed capital requirements, although there are restrictions on the level of interest that can be paid due to conditions imposed on REITs.

Financial risk management

The Company seeks to minimise the effects of interest rate risk, credit risk, liquidity risk and cash flow risk by using fixed and floating rate debt instruments with varying maturity profiles, at low levels of gearing.

Interest rate risk management

The Company's activities expose it primarily to the financial risks of increases in interest rates, as it borrows funds at floating interest rates. The risk is managed by maintaining:

- An appropriate balance between fixed and floating rate borrowings;
- A low level of gearing; and
- The RCF whose flexibility allows the Company to manage the risk of changes in interest rates.

The Board periodically consider the availability and cost of hedging instruments to assess whether their use is appropriate, and also consider the maturity profile of the Company's borrowings.

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. If three-month LIBOR had been 0.5% higher and all other variables were constant, the Company's profit for the year ended 31 March 2016 would decrease by £0.1m (2015: £0.1m) due to its variable rate borrowings. If three-month LIBOR had been 0.5% lower and all other variables were constant, the Company's profit for the year ended 31 March 2016 would have increased by £0.1m (2015: £0.1m).

20. Financial risk management continued

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2016

to the Company. The Company's credit risk is primarily attributable to its trade receivables and cash balances. The amounts included in the statement of financial position are net of allowances for bad and doubtful debts. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The Company has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The maximum credit risk on financial assets at 31 March 2016 was £1.0m (2015: £0.5m).

The Company has no significant concentration of credit risk, with exposure spread over a large number of tenants covering a wide variety of business types. Further detail on the Company's credit risk management process is included within the Strategic Report.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profile of financial assets and liabilities.

The following table details the Company's contractual maturity for its financial liabilities not disclosed elsewhere. The table has been drawn up based on undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows.

Group and Company	Weighted average effective interest rate %	31 March 2016 0-3 months £000	31 March 2016 3 months-1 year £000	31 March 2016 1-5 years £000	31 March 2016 6 years + £000
Trade and other payables		3,681	—	148	423
Borrowings:					
Variable rate	2.856	322	967	24,127	26,000
Fixed rate	3.935	197	590	3,148	23,441
		4,200	1,557	27,423	49,864

	Weighted average effective interest rate %	31 March 2015 0-3 months £000	31 March 2015 3 months-1 year £000	31 March 2015 1-5 years £000	31 March 2015 6 years + £000
Trade and other payables		—	—	—	—
Borrowings:					
Variable rate	2.095	126	377	26,087	—
		126	377	26,087	—

20. Financial risk management continued

Fair values

The fair values of financial assets and liabilities are not materially different from their carrying values in the financial statements. The fair value hierarchy levels are as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – inputs for the assets or liability that are not based on observable market data (unobservable inputs).

There have been no transfers between Levels 1, 2 and 3 during the year. The main methods and assumptions used in estimating the fair values of financial instruments and investment property are detailed below.

Investment property – level 3

Fair value is based on valuations provided by an independent firm of chartered surveyors and registered appraisers. These values were determined after having taken into consideration recent market transactions for similar properties in similar locations to the investment properties held by the Company. The fair value hierarchy of investment property is level 3. At 31 March 2016, the fair value of the Company's investment properties was £319.0m (2015: £207.3m).

Interest bearing loans and borrowings – level 3

As at 31 March 2016 the value of the Company's loans was £65.1m (2015: £24.3m) and the amortised cost of the Company's loans with Lloyds Bank plc and Scottish Widows Limited approximated their fair value. The loan from Scottish Widows Limited includes a market-based break cost for early repayment ("Prepayment Option"), which is classified as a non-separable component of the loan. If the Prepayment Option was classified as a separate financial instrument, it would increase the Company's borrowings and decrease NAV at 31 March 2016 by £1.5m.

Trade and other receivables/payables – level 3

The carrying amount of all receivables and payables deemed to be due within one year are considered to reflect their fair value.

21. Events after the reporting date

New equity

Since the reporting date the Company has issued 27,640,000 new ordinary shares of 1p each, raising £29.0m (before costs and expenses).

Acquisitions

On 15 April 2016 the Company acquired a high street retail unit in Chester, let to TSB and Ciel Concessions (trading as Chesca) for £2.1m, with lease expiries between September 2019 and March 2020 and a total passing rent of £0.13m per annum, reflecting a net initial yield of 5.9%.

On 26 May 2016 the Company acquired an industrial unit in Tamworth let to Schenker Limited, a subsidiary of Deutsche Bahn, for £4.7m. The lease expires in September 2017 with total passing rent of £0.28m per annum, reflecting a net initial yield of 5.7%.

Borrowings

On 6 June 2016, the Company and Scottish Widows Limited, with Lloyds Bank plc acting as agent, entered into an agreement for Scottish Widows Limited to provide the Company with a new term loan facility of £45m, repayable on 6 June 2028. Under the terms of the agreement, the Company will pay fixed interest of 2.987% per annum on the balance.

COMPANY INFORMATION

Directors

David Hunter	Chairman
Barry Gilbertson	Non-executive
Ian Mattioli	Non-executive
Matthew Thorne	Non-executive

Company secretary
Nathan Imlach

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Registered number
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Broker
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The London Stock Exchange Building
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EC4M 7LT

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The Registry
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FINANCIAL CALENDAR

5 May 2016	Ex-dividend date for Q4 dividend
6 May 2016	Record date for Q4 dividend
7 June 2016	Announcement of results for the year ended 31 March 2016
30 June 2016	Payment of Q4 dividend
26 July 2016	AGM

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