Drum Income Plus REIT plc

LEI: 213800FG3PJGQ3KQH756

Report & Financial Statements for the period to 30 September 2016

Chairman's Statement

INTRODUCTION
Drum Income Plus REIT plc was established to provide investors with a regular dividend income, plus the prospect of income and capital growth over the longer term, by investing in regional real estate assets. These financial statements cover the 18 month accounting period ended 30 September 2016 and include 16 months of activity following the IPO completed on 29 May 2015. The first property acquisition was completed in August 2015.

NET ASSET VALUE *
The Group's net asset value (NAV) as at 30 September 2016 was 93.5 pence per share. The significant factors determining the return over this first period have been the costs incurred in respect of the launch (2.3 pence per share) and of purchasing the properties identified by the manager (8.6 pence per share). These costs have been mitigated by the success of the active management initiatives implemented by your Investment Adviser which have contributed to an increase in the valuation of the properties purchased, excluding capitalised costs, equivalent to 2.8 pence per share. This means that while the Group's total comprehensive loss for the period was £66,000, when the capital property acquisition costs of £2.9 million are stripped out a gain of £1.0 million was made on the property purchase price.

As at 30 September 2016 the share price was 104 pence, an increase of 4% from the 100 pence at launch. The share price stands at 102 pence as I write, representing a premium of 6.8% to the 31 December 2016 NAV of 95.5 pence.

DIVIDENDS AND EARNINGS
The Company has declared four interim dividends of 1.3125 pence per share in respect of the period since launch. The dividends paid during the quarters to 31 March, 30 June and 30 September 2016 were fully covered by the Group's earnings per share for the sixteen months trading period of 6.47 pence and the Board is targeting fully covered aggregate quarterly dividends of at least 5.5 pence per share in respect of the year ending 30 September 2017 and at least 6.0 pence per share in respect of the year ending 30 September 2018.

INVESTMENT ACTIVITY
During the sixteen month trading period under review the Group acquired nine properties with a value at 30 September 2016 of £48.2m.

The properties are in various regional locations and have in total 83 tenants; as stated in the prospectuses the Company has no exposure to Central London markets which might be more exposed to political uncertainties.

Further details on the property portfolio and activity are given in the Investment Adviser's Report, together with a description of some of the active asset management initiatives that have added value for the trading shareholders.

The Board is delighted that the whole of the proceeds of the initial and subsequent issues have been invested at valuations and yields very much in line with those described in the prospectuses.

FUND RAISING
The Company published a prospectus in February 2016 relating to an initial placing and subsequent 12 month placing programme. It issued 2.8 million shares in March 2016 and 2.0 million shares in August 2016, 0.4 million of them under the placing programme, all at a price of £1.00 per share. The placing programme provides a flexible and cost effective mechanism for issuing further shares to meet investor demand and take advantage of new investment opportunities.

GEARING
The Board stated in the prospectuses that it intended to target initial gearing, calculated as borrowings as a percentage of the Group's gross assets, of 40% and this remains the case. At 30 September 2016 the Group had in place a £20 million revolving credit facility with the Royal Bank of Scotland plc, due to expire in July 2017, of which it had drawn down £14.5 million. The gearing percentage was 29.8%. On 6 January 2017, the Group replaced this facility with a new £25 million 3 year revolving credit facility agreement also with the Royal Bank of Scotland.

OUTLOOK

The Board believes that the outlook for the regional property market in the UK remains strong, underpinned by high levels of occupational demand and a shortage of supply. The Investment Adviser's knowledge and experience will be key in continuing to identify and effectively manage properties in this sector.

The Group will continue to focus on its differentiated investment strategy of investing in multi–let assets in regional locations with a value of between £2m and £15m. The positive yield differential that these assets enjoy over larger and more London and South East located assets persists and the Board looks forward to further progress being made.

John Evans
Chairman
26 January 2017

* The pence per share numbers in this paragraph are calculated on the basis of the number of shares in issue (launch costs) or the weighted average number of shares in issue as appropriate.

Investment Adviser's Report

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

The Group pays quarterly dividends, now fully covered on a quarter-by-quarter basis, equating to an annualised dividend yield of 5.05% at 30 September 2016. Despite the fund's rapid growth, Drum Real Estate Investment Management limited ("DREIM") have sought to minimise the impact of 'cash drag' following the issue of new shares by taking advantage of the flexibility offered by the Group's £20m revolving credit facility ("RCF"). The flexibility of the RCF, coupled with proactive asset management by the Investment Advisers and the rapid deployment of cash as it has been raised, allowed DRIP to increase its targeted annualised dividend from 5.0 pence per share indicated in the initial prospectus to 5.25 pence per share.

DRIP was listed in May 2015, with zero assets and £32 million of cash following the initial placing. At 30 September 2016, 16 months later, DRIP now has 9 assets across major Commercial sectors with a rent roll of £4.14m and a gross asset value of £48.2m with a further £5m yet to be deployed.

DRIP is now firmly established as one of the UK's leading REIT's focussed on regional UK commercial property with a well-balanced geographical spread of assets across the UK. The Group owns over 280,000 sq ft of income producing assets and is well placed to benefit from the ever evolving dynamics of the regional property market.

SHAREHOLDER SUPPORT

A key highlight this period was the continuing strong support from both our equity and debt stakeholders. In the Equity Capital Markets, we undertook two successful fundraisings, raising a total of £4.7 million from new and existing shareholders.

The new equity was rapidly deployed through strategic acquisitions which increased both assets under management and the market capitalisation of the Group.

Our debt providers continued to be supportive and the Group was successful in raising £20 million of competitively priced facilities to support our investment strategies. The Group prides itself on an amount invested of £25 million in January 2017 the highly efficient use of its balance sheet to maximise income, and minimise cash drag, for our shareholders through rapid deployment of capital and this period was no different. Nevertheless, we retain a prudent approach as evidenced by our low Balance Sheet gearing of just 29.8% at 30 September 2016.

ACTIVE ASSET MANAGEMENT

DRIP's portfolio was established through acquisitions and the Group's core strategy of active asset management to drive income returns continues apace.

The Group invests significantly in the portfolio which both attracts new and retains existing high quality occupiers, evidenced through our sustained high occupancy of greater than 95%.

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

We have grown a team of highly focused, experienced and talented individuals, who are passionate property experts, understand their market intimately and are committed to delivering value to shareholders.

INNOVATIVE INVESTMENT

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

GENERATING A HIGH, SUSTAINABLE INCOME

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

STRONG PLATFORM FOR FUTURE GROWTH

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

STOCK SELECTION

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

We have been through an intensive period of activity for the business, swiftly and effectively deploying the proceeds from the initial equity raise plus two further equity raises into strategic acquisitions and growing the portfolio to 9 assets.

A strong start to 2015 was halted as the UK General Election approached in May and subsequently dampened activity. We went on to see a high degree of re-trade stock and over ambitious pricing, along with the uncertainties occasioned by the Brexit referendum. Demand remains resilient for high quality prime assets but investors are increasingly stock selective.

OUTLOOK

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

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

PRINCIPAL RISKS AND UNCERTAINTIES

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

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

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

RISK TYPE	RISKS	MITIGATING FACTORS
Strategic	• Political; the impact of Brexit remains unclear and there are a number of European elections pending.	• Well diversified regional property portfolio, with no exposure to London.
Investment portfolio	• Tenant default. • Change in demand for space. • Market pricing affecting value. • Excess concentration in geographical location or sector. • Lease expiries concentrated in a specific year. • Decrease in occupancy.	• Investment policy limits the Group's rent roll to no more than 20% to a single tenant. • Focused on established business locations for investment. • Active portfolio diversification between office, industrial and retail. • Active management of lease expiry profile in forming acquisition decisions. • Building specifications not tailored to one user.
Investment management	• Poor investment decisions. • Over exposure to a specific tenant, sector or geographic location • Ineffective added value asset management of properties.	• Experienced Investment Adviser. • Agreed concentration limits reviewed quarterly by the Board and continuously by the Investment Adviser. • Investment Adviser is experienced in active asset management and pro-active with regard to lease and development opportunities.
Financial	• Reduced availability or increased cost of debt. • Breach of borrowing covenants.	• New 3 year £25m revolving credit facility entered into in January 2017. • Board has stated that it intends to target a gearing level of 40% and this gearing number at the point of drawdown is lower than that in the new facility covenants. • New facility more than sufficient for spending plans. • On-going monitoring and management of the forecast liquidity and covenant position.
Operational	• Inadequate performance controls or systems operated by the Investment Adviser and Administrator.	• Ongoing review of performance by independent Board of Directors.
Regulatory	• Adverse impact of new or revised	• External professional advisers are

legislation or regulations or by changes in the interpretation or enforcement of existing laws and regulations.

- Non-compliance with the REIT regime.

engaged to review and advise upon control environment and ensure regulatory compliance.

- REIT regime compliance is reviewed by external tax advisers and considered by the Board in assessing the Group's financial position and by the Manager in making operational decisions

Directors' responsibility statement

We confirm that to the best of our knowledge:

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

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

John Evans
Chairman
26 January 2017

Consolidated Statement of Comprehensive Income (Audited)

For the eighteen months ended 30 September 2016

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

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

There was no activity during the prior period to 31 March 2015.

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

No operations were acquired or discontinued in the period.

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

Consolidated Statement of Financial Position (Audited)

As at 30 September 2016

	Notes	**As at 30 September 2016 £'000**	As at 31 March 2015 £'000
Non-current assets			
Investment properties	4	**48,238**	-
		48,238	-
Current assets			
Trade and other receivables		**388**	50
Cash and cash equivalents		**718**	-
		1,106	50
Total assets		**49,344**	50
Current liabilities			
Trade and other payables		**(767)**	-
Loan	6	**(14,350)**	-
Total liabilities		**(15,117)**	-
Net assets		**34,227**	50
Equity and reserves			
Called up equity share capital	8	**3,659**	1
Share premium		**3,921**	49
Special distributable reserve		**26,840**	-
Capital reserve		**(1,978)**	-
Revenue reserve		**1,785**	-
Equity shareholders' funds		**34,227**	50
Net asset value per Ordinary Share	7	**93.53p**	100.00p

The accompanying notes are an integral part of these financial statements.
Company number: 09511797.

Consolidated Statement of Changes in Equity (Audited)

For the eighteen months ended 30 September 2016

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

For the period to 31 March 2015

	Notes	Share capital account £'000	Share premium £'000	Special distributive reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total equity £'000
Profit and total comprehensive profit for the period		-	-	-	-	-	-
Transactions with owners recognised in equity:							
Issue of Ordinary Share capital		1	49	-	-	-	50
As at 31 March 2015		**1**	**49**	**-**	**-**	**-**	**50**

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

Consolidated Statement of Cash Flow (Audited)

For the eighteen months ended 30 September 2016

	Notes	Period to 30 September 2016 £'000
Cash flows from operating activities		
Loss before tax		**(66)**
Adjustments for:		
Interest payable		**249**
Interest receivable		**(46)**
Unrealised revaluation loss on property portfolio		**1,895**
Operating cash flows before working capital changes		**2,032**
Increase in trade and other receivables		**(388)**
Increase in trade and other payables		**557**
Net cash inflow from operating activities		**2,201**
Cash flows from investing activities		
Purchase of investment properties		**(45,644)**
Property capitalised costs		**(2,837)**
Net cash outflow from investing activities		**(48,481)**
Cash flows from financing activities		
Bank loan drawn down net of arrangement fees		**14,253**
Issue of Ordinary Share capital		**34,061**
Interest received		**46**
Interest paid		**(107)**
Equity dividends paid		**(1,255)**
Net cash inflow from financing activities		**46,998**
Net increase in cash and cash equivalents		**718**
Opening cash and cash equivalent		**-**
Closing cash and cash equivalents		**718**

There was no cash flow activity during the period to 31 March 2015.

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

1. INVESTMENT ADVISER'S FEE

	Period ended 30 September 2016 **£'000**
Investment Adviser's fee	**267**
Total	**267**

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

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

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

2. DIVIDENDS

In the period ended 30 September 2016 the Group declared the following dividends:

	Period ended 30 September 2016 **£'000**
A first interim dividend of 1.3125p (£417,000) in respect of the period ended 31 December 2015 was paid to shareholders on 26 February 2016.	417
A second interim dividend of 1.3125p (£455,000) in respect of the period ended 31 March 2016 was paid to shareholders on 27 May 2016.	455
A third interim dividend of 1.3125p (£455,000) in respect of the period ended 30 June 2016 was paid to shareholders on 26 August 2016.	455
Total dividends paid	**1,327**

A fourth interim dividend of 1.3125p (£480,000) in respect of the period ended 30 September 2016 was paid on to shareholders on 2 December 2016.

3. TOTAL EARNINGS PER SHARE

The Group's basic and diluted revenue profit per ordinary share of 6.47p (period to 31 March 2015: nil) per share is based on the net revenue profit for the period of £1,912,000 (period to 31 March 2015: £nil) and 29,561,058 (period to 31 March 2015: 50,000) ordinary shares, being the weighted average number of shares in issue during the period.

The Group's basic and diluted capital loss per ordinary share of (6.69p) (period to 31 March 2015: nil) per share is based on the capital loss for the period of (£1,978,000) (period to 31 March 2015: £nil) and on 29,561,058 (period to 31 March 2015: 50,000) ordinary shares, being the weighted average number of shares in issue during the period.

The Group's basic and diluted total loss per ordinary share of (0.22p) (period to 31 March 2015: nil) per share is based on the loss for the period of (£66,000) (period to 31 March 2015: £nil) and on 29,561,058 (period to 31 March 2015: 50,000) ordinary shares, being the weighted average number of shares in issue during the period.

4. INVESTMENT PROPERTIES

	As at 30 September 2016 £'000	As at 31 March 2015 £'000
Opening fair value	-	-
Purchases	47,204	-
Acquisition costs	2,929	-
Revaluation movement	(1,895)	-
Closing fair value	**48,238**	-

Changes in the valuation of investment properties

	As at 30 September 2016 £'000	As at 31 March 2015 £'000
Unrealised loss on revaluation of investment properties	(1,895)	-

The properties were valued at £48,238,000 as at 30 September 2016 (31 March 2015: £nil) by Savills (UK) Limited ('Savills'), in their capacity as external valuers.

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

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

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

5. INVESTMENT IN SUBSIDIARY

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

6. LOAN

	As at 30 September 2016 £'000	As at 31 March 2015 £'000
Principal amount outstanding	14,460	-
Set-up costs	(110)	-
Total	**14,350**	-

In January 2016 the Group entered into a £20 million secured 18 month revolving credit facility agreement with the Royal Bank of Scotland ('the Bank') at a rate of 1.1% plus LIBOR per annum which has a maturity date of July 2017.

As part of the loan agreement the Bank has a standard security over the properties currently held by the Group, with an aggregate value of £48,238,000 at 30 September 2016.

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

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

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

On 6 January 2017 the Group replaced the existing loan facility with a new £25 million secured 3 year revolving credit facility agreement with the Royal Bank of Scotland ("the Bank"). Details of the new facility are contained in Note 11.

7. NET ASSET VALUE

The Group's net asset value per ordinary share of 93.53 pence (31 March 2015: 100.00 pence) is based on equity shareholders' funds of £34,227,000 (31 March 2015: £50,000) and on 36,594,900 (31 March 2015: 50,000) ordinary shares, being the number of shares in issue at the period end.

8. CALLED UP EQUITY SHARE CAPITAL

	Eighteen months to 30 September 2016 Shares	Period to 31 March 2015 Shares	Eighteen months to 30 September 2016 £'000	Period to 31 March 2015 £'000
Issued and fully paid				
Opening total issued ordinary shares of 10p each	50,000	-	1	-
Issued during the period	36,544,900	50,000	3,658	1
Closing total issued ordinary shares	**36,594,900***	**50,000***	**3,659**	**1**

* Share capital as at 31 March 2015 was unpaid; share capital as at 30 September 2016 was fully paid.

On 29 May 2015 31,814,000 ordinary 10p shares were issued for a consideration of £1 per share.

On 24 March 2016 2,770,900 ordinary 10p shares were issued for a consideration of £1 per share.

On 18 August 2016 1,960,000 ordinary 10p shares were issued for a consideration of £1 per share.

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

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

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

£1.2m was transferred from the special distributable reserve to the revenue reserve during the period.

There is only one class of share in issue.

9. RELATED PARTY TRANSACTIONS

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

The Group purchased the property situated at Burnside Industrial Centre, Dyce, Aberdeen, from Drum Commercial Asset Investments Limited, a private limited company owned by Graeme Bone, the founder and principal owner of Drum Property Group, which is the Investment Adviser's parent company. The property was valued at £2.6 million by the Company's independent property valuers, Savills (UK) Limited. 1,560,000 ordinary shares were issued at £1.00 each on 18 August 2016 in part payment for the acquisition, with the balance of £1.04 million paid in cash. Shareholders approved this purchase in advance at a General Meeting of the Group held on 8 August 2016.

The Directors of the Group received fees for their services. Total fees for the period were £100,000 (for the period from incorporation to 31 March 2015: £nil) of which £7,000 was payable at the period end (for the period from incorporation to 31 March 2015: £nil).

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

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

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

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

As per the prospectus published in April 2015, the Investment Adviser agreed to reduce its portfolio management fee under the AIFM agreement to the extent necessary to ensure that the core annual expenses of the Group did not exceed 2.0% of the Group's net assets. Certain expenses (in particular marketing, broking and some loan related costs) fall outwith the ongoing charges calculation, resulting in the ongoing charges ratio being 2.4% of net assets.

R&H Fund Services (Jersey) Limited, as AIFM and Investment Manager, earned £20,000 during the period (for the period from incorporation to 31 March 2015: £nil). £10,000 was payable at the period end (for the period from incorporation to 31 March 2015: £nil).

Drum Real Estate Investment Management Limited, as Investment Adviser, earned £267,000 during the period (for the period from incorporation to 31 March 2015: £nil). £35,000 was payable at the period end.

Turcan Connell Asset Management Limited, as Economic Adviser, earned £81,000 during the period (for the period from incorporation to 31 March 2015: £nil). No fee was payable at the period end (for the period from incorporation to 31 March 2015: £nil).

10. FINANCIAL INSTRUMENTS

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

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

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

CREDIT RISK

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

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

Where there are concerns over the recoverability of rental income, the amounts outstanding will be fully provided for. There was no such provision recognised as there were no financial assets which were either past due or considered impaired at 30 September 2016 or at 31 March 2015.

All of the Group's cash was placed with The Royal Bank of Scotland plc as at 30 September 2016. Bankruptcy or insolvency of the bank holding cash balances may cause the Group's ability to access cash placed with them to be delayed, limited or lost. RBS is rated at BBB- or better by the main rating agencies, with a stable or positive outlook. Should the credit quality or the financial position of the banks currently employed significantly deteriorate, cash holdings would be moved to another bank.

LIQUIDITY RISK

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

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

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

INTEREST RATE RISK

Some of the Group's financial instruments will be interest-bearing. During the period to 30 September 2016, the Group only held interest-bearing financial instruments that carried interest at a variable rate. As a consequence, the Group will be exposed to cash flow interest rate risk due to fluctuations in the prevailing market rate. The Group did not hold any interest-bearing financial instruments that carried interest at a fixed interest rate and was therefore not exposed to fair value interest rate risk.

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

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

Any changes in market conditions will directly affect the profit and loss reported through the Statement of Comprehensive Income. Details of the Group's investment property portfolio held at the balance sheet date are disclosed in Note 4.

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

11. POST-BALANCE SHEET EVENTS

On 6 January 2017 the Group replaced its existing £20m 18 month secured loan facility with a new £25 million secured 3 year revolving credit facility agreement, both with the Royal Bank of Scotland. The interest rate on the new facility is 1.75% plus LIBOR per annum and has a maturity date of 6 January 2020.

As part of the loan agreement the Bank has a standard security over properties currently held by the Group, with an aggregate value of £48,775,000 at 31 December 2016.

Under the financial covenants related to this loan, the Group has to ensure that for Drum Income Plus Limited:
- the interest cover, being the rental income as a percentage of finance costs, is at least 250%;
- the loan to value ratio, being the value of the loan as a percentage of the aggregate market value of the relevant properties, must not exceed 50%.

On 19 January 2017 the Group published its 31 December 2016 NAV. The NAV per share at 31 December 2016 was 95.5 pence (30 September 2016: 93.5 pence). The fair independent valuation of the property portfolio was £48.8 million at 31 December 2016 (30 September 2016: £48.2 million).

12. FINANCIAL STATEMENTS

These are not full statutory accounts. The report and financial statements for the year to 30 September 2016 will be posted to shareholders and made available on the website: www.dripreit.co.uk . Copies may also be obtained from the Company Secretary, R&H Fund Services Limited, 20 Forth Street, Edinburgh, EH1 3LH.

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