

**CLIPSTONE INDUSTRIAL REIT PLC**

**ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2019**

Registered number 09046897

**CLIPSTONE INDUSTRIAL REIT PLC**  
**CONTENTS**

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|  |    |
|--|----|
| <b>Directors, Management and Advisers</b>        | 1  |
| <b>Strategic Report - Chairman's Statement</b>   | 2  |
| <b>- Strategic Report</b>                        | 4  |
| <b>Directors' Report</b>                         | 8  |
| <b>Statement of Directors' Responsibilities</b>  | 10 |
| <b>Independent Auditor's Report</b>              | 11 |
| <b>Financial Statements</b>                      |    |
| - Consolidated Statement of Comprehensive Income | 15 |
| - Consolidated Statement of Financial Position   | 16 |
| - Parent Company Statement of Financial Position | 17 |
| - Consolidated Statement of Changes in Equity    | 18 |
| - Parent Company Statement of Changes in Equity  | 19 |
| - Consolidated Statement of Cash Flows           | 20 |
| - Notes to the Financial Statements              | 21 |

**CLIPSTONE INDUSTRIAL REIT PLC  
DIRECTORS, MANAGEMENT AND ADVISERS**

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| <b>Directors</b>  | Nicholas Lyons (Chairman)<br>Karl Sternberg<br>Toby Dean<br>Richard Demarchi (appointed 14 December 2018)                      |
| <b>Registered Office</b>                                    | 45 Albemarle Street<br>London W1S 4JL  |
| <b>AIFM</b>   | <b>Clipstone Capital Limited</b><br>45 Albemarle Street<br>London W1S 4JL  |
| <b>Property Manager and Company Secretary</b>               | <b>Clipstone Investment Management Limited</b><br>45 Albemarle Street<br>London W1S 4JL  |
| <b>Sponsor for The International Stock Exchange Limited</b> | <b>Carey Olsen Corporate Finance Limited</b><br>47 Esplanade<br>St Helier<br>Jersey JE1 0BD                                    |
| <b>Depositary to 30 June 2019</b>                           | <b>Gallium P E Depositary Limited</b><br>Gallium House<br>Unit 2, Station Court<br>Borough Green<br>Sevenoaks<br>Kent TN15 8AD |
| <b>Depositary from 1 July 2019</b>                          | <b>Langham Hall UK Depositary LLP</b><br>8th Floor<br>1 Fleet Place<br>London EC4M 7RA   |
| <b>Independent Auditor</b>                                  | <b>Moore Kingston Smith LLP</b><br>Devonshire House, 60 Goswell Road<br>London EC1M 7AD  |
| <b>Property Valuer</b>                                      | <b>Colliers International Valuation UK LLP</b><br>50 George Street<br>London W1U 7GA   |
| <b>Legal Advisors to the Company (English Law)</b>          | <b>Hogan Lovells International LLP</b><br>Atlantic House<br>Holborn Viaduct<br>London EC1A 2FG                                 |
| <b>Legal Advisors to the Company (Jersey Law)</b>           | <b>Carey Olsen</b><br>47 Esplanade<br>St Helier<br>Jersey JE1 0BD  |
| <b>Market Maker</b>   | <b>Ravenscroft Limited</b><br>PO Box 222<br>The Market Buildings<br>Fountain Street<br>St Peter Port<br>Guernsey GY1 4JG       |

**CLIPSTONE INDUSTRIAL REIT PLC**  
**STRATEGIC REPORT**  
**CHAIRMAN'S STATEMENT**

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The Company has made considerable progress over the last 12 months. Following a thorough strategic review, the Board decided to refocus Clipstone and de-risk the balance sheet in the face of external volatility. In December 2018, we sold our five Midlands-based distribution warehouses. In January 2019, the Company completed the acquisition of Clipstone Industrial Unit Trust in exchange for newly issued shares in the Company. This acquisition added 33 industrial estates located in the south of England which, when combined with the Company's existing four multi-let industrial estates, created a property portfolio valued at £197.9 million at the time of the transaction. Following the acquisition, the company changed its name to Clipstone Industrial REIT plc, reflecting the new focus of our property portfolio and investment strategy.

Uncertainty over the terms and timing of the UK's exit from the EU, deteriorating macro economic indicators for the UK, a reduction in inward investment and the trials and tribulations of a number of High Street retailers continue to be the dominant themes affecting the UK property market. Nevertheless, the sector for industrial properties has continued to perform well, especially in the south-east of England. The imbalance between demand and supply has driven marked rental growth over the past few years and the evidence from recent lettings and projections for available space suggest that this trend is likely to continue.

The opportunity for the Company to acquire a portfolio of multi-let industrial assets allowed us to diversify the portfolio and materially reduce concentration risk. We increased the number of properties from 9 to 37 and the number of tenants from 30 to 217, with the largest tenant accounting now for just 3.8% of the total rent roll, compared with 19.6% prior to the sale of the five distribution warehouses. Reducing concentration risk has long been a stated aim of the board.

Another goal has been to reduce the Company's loan to value ratio. The proceeds from the sale of the distribution warehouses were used to reduce the Company's debt to £32 million and to purchase new units in Clipstone Industrial Unit Trust with the cash injected being used to repay the Unit Trust's debt. The Unit Trust was therefore acquired debt free and so the loan to value ratio in the Company following the acquisition was 16.2%, down from 38.4% in June 2018.

With the Company's strengthened balance sheet we were able to refinance our bank facilities, providing the group with a term loan of £32 million alongside a revolving credit facility of £30 million, with a reduced interest rate margin. We now have the headroom to drawdown debt to take advantage of acquisition opportunities as they are identified by the Manager.

Despite the significant reduction in debt, the company has been able to increase its quarterly dividend from a rate of 5p per share per annum to 6p per share per annum. As and when we are able to find attractive additional properties to acquire, we aim to increase the dividend further.

On behalf of the Board, I would like to thank all of our investors for the loyal backing that they continue to provide. Our strategy means that we have to be opportunistic and quick to move when properties come up for sale. Inevitably that means that we have to raise debt and equity from time to time at short notice. We are fortunate to have such supportive shareholders.

I would like to thank my non-executive colleague on the board, Karl Sternberg, for his unstinting assistance and invaluable expertise as well as Toby Dean and his team at our Manager for all of the hard work in what has been an especially busy and successful year. I am confident that we are well prepared for whatever form Brexit will take and are positioned to move swiftly when opportunities arise.

I am pleased to report the results of the Group for the year ended 30 June 2019.

**Results to 30 June 2019**

The Group's properties were independently valued at 30 June 2019 at £205,893,000 (30 June 2018: £127,264,000) an increase of 1.9% from the portfolio valuation at 31 December 2018. The increase was due to further improvements in market sentiment over the period, particularly with respect to multi-let industrial property in the South-East.

The Group's net asset value (NAV) per share at 30 June 2019 was £1.4267 (30 June 2018: £1.3470). No adjustment has been made for any potential performance fee due to the property manager. If the investment properties were sold at their values at 30 June 2019, there would be a performance fee payable of £2,372,779 (30 June 2018: £1,855,957). The NAV net of the potential performance fee would have been £1.4068 per share at 30 June 2019 (30 June 2018: £1.3150). The total return since listing, representing both the NAV increase and dividends paid to 30 June 2019, net of the potential performance fee, was 65.2% (30 June 2018: 53.8%).

**CLIPSTONE INDUSTRIAL REIT PLC**  
**STRATEGIC REPORT**  
**CHAIRMAN'S STATEMENT (Continued)**

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**Events to 30 June 2019**

I summarise below the material events that have taken place during the year ended 30 June 2019.

On 27 September 2018 the Group's former warehouse at Bardon was let. This property had been vacant for two years. The new letting was to Roca Limited and is guaranteed by Roca Sanitario S.A. registered in Spain, the head of a global group of companies specialising in the production of sanitaryware. The lease is for 15 years with a break after seven and a half years, with a headline rent 5.3% (c.£44,000 per annum) higher than the rent being paid by the previous tenant. Completing this letting was key to a successful disposal of the Group's warehouses, attracting competitive bids from a number of parties and achieving a profit on disposal in excess of the 30 June 2018 valuation of over £2 million for the five properties. The total profit on gross purchase costs for the Group was in excess of £10 million.

On 31 January 2019 the Group acquired all of the Units in Clipstone Industrial Unit Trust. £61.9 million of new units were purchased with the remaining units acquired in exchange for new shares issued in the Company. 63,355,339 shares were issued to the unitholders of the Unit Trust at £1.3670 each.

On 29 March 2019, the Company issued 1,376,600 ordinary shares of £0.01 each at a premium of £1.3713 each. The equity raised was to fund the Company's development projects.

On 30 April 2019 the Company repaid in full its loan facility and entered into a new facility via its subsidiary Clipstone IX Limited. The new facility provides for a term loan of £32 million and a revolving credit facility of £30 million. The margin above 3 -month LIBOR for the new facility is 1.50% compared to a blended rate of 1.72% for the old facility.

Three interim dividends of 1.25p per share and one of 1.50p per share were paid during the year adding up to a total of 5.25p per share.

**Post Balance Sheet Events**

On 4 July 2019 the Company completed the purchase of an investment property in Swanley for £10.86 million plus associated costs. The property is a single let urban logistics warehouse totalling 56,833 square feet, made up of two adjoining units. The property is well located inside the M25 on the intersection of the M25 with the M20, making it ideal for servicing Greater London and the South East, and increases the Company's exposure to the Greater London area. The purchase price represents a net initial yield of 4.92%.

On 27 September 2019 the Company completed the purchase of an investment property in Enfield for £5.12 million plus associated purchase costs. The property comprises a single 21,500 square foot unit which has been split and is currently occupied by two tenants, one of which is the vendor of the property. As part of the deal the property will become vacant before the end of 2019 at which time we will undertake a refurbishment to improve the property and restore it to a single unit, following which we will market and re-let. The asset is in a well-established industrial location within the M25 and with good transport and road links to London and the wider South East, further increasing the Company's exposure to the Greater London area.

An interim dividend of 1.50 pence per share was declared on 30 July 2019 and paid on 22 August 2019.



Nicholas Lyons

Chairman

2 October 2019

## **CLIPSTONE INDUSTRIAL REIT PLC**

### **STRATEGIC REPORT**

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The Directors present their Strategic Report on the Group for the year to 30 June 2019.

The Company is a closed-ended investment company, incorporated on 19 May 2014 in England and Wales and registered as an investment company under section 833 of the Companies Act 2006.

The Company's issued share capital is listed on the Official List of The International Stock Exchange. The Company and its subsidiaries (together "the Group") entered the REIT regime with effect from 17 December 2014.

#### **Investment Objective**

The Group's Investment Objective is to generate secure income and capital returns for Shareholders by investing in a balanced portfolio of good quality industrial property across the South and South East of the UK.

The full Investment Policy is set out in the Listing Document which can be obtained from The International Stock Exchange (<http://www.tisegroup.com/>).

The Group will target a maximum level of bank borrowings of 55% of the value of the investment portfolio, but will look to maintain a loan to value range of 25% – 35%.

#### **Alternative Investment Fund Manager (AIFM) and Property Manager**

The AIFM for the year continued to be Clipstone Capital Limited. Toby Dean is a director of Clipstone Capital Limited and a director of the Company. The annual fee payable to the AIFM is £20,000.

The Company has appointed Clipstone Investment Management Limited ("Clipstone IM") as property manager pursuant to a property management agreement dated 15 December 2014. Under the Property Management Agreement, Clipstone IM has agreed to provide property management services and advice to the Group and the AIFM, such as identifying, evaluating and negotiating investment opportunities in property for the Group, subject to the overall control and supervision of the Directors. The agreement may be terminated on one year's notice by either party after four years. The annual management fee is 1.25% of the net asset value of the Group, measured and paid quarterly in arrears. Toby Dean is a director and shareholder of Clipstone IM and a director of the Company.

#### **Dividend Policy**

The Company intends to pay interim dividends on a quarterly basis in cash. The Company is targeting an annualised dividend, payable quarterly, of 7 pence per share. Since the Group's former warehouse in Bardon became vacant in August 2016 the Company reduced its dividend rate to 5 pence per share per annum, however following the sale of the Group's distribution warehouses and acquisition of Clipstone Industrial Unit Trust in January 2019 the Company has increased the dividend rate to 6 pence per share. The Board is targetting an increase to the dividend rate as soon as possible, however this will require an increase in the Group's gearing towards the target range of 25% - 35%.

#### **Key Performance Indicators**

The Directors consider that the Group's net asset value is a more appropriate indicator of the performance of a property investment group than earnings per share. The calculation of the net asset value is given in Note 19 on page 31.

The Group's net asset value (NAV) less potential performance fee per share at 30 June 2019 was £1.4068 (2018: £1.3150), which represents an increase of 43.6% (2018: 34.2%) over the £0.98 on admission on 17 December 2014. The total return, being NAV increase and dividends paid less potential performance fee to 30 June 2019 was 65.2% (2018: 53.8%).

The Group's properties were independently valued at 30 June 2019 at £205.893m (2018: £127.264m), an uplift of 8.2% (2018: 19.9%) over their aggregate acquisition price, excluding acquisition costs.

## **Outlook**

The property market continues to be adversely affected by uncertainty around Brexit and the wider political instability in the UK. The "wait and see" attitude of the market has perhaps been best demonstrated by the broadly flat net flows experienced by retail property funds since the beginning of 2017, continuing throughout 2018 and again in 2019. The accompanying theme since 2018 has been the well-publicised spate of CVAs entered into by high street retailers, which has negatively affected the retail property sector. The malaise in high street retail shows no sign of letting up as consumers continue increasingly to shop online, and the costs of selling via traditional bricks and mortar continues to increase. The slow down in UK economic growth rates and the potential for economic shocks caused by Brexit or global economic events provides considerable uncertainty in the short term economic outlook. The restructuring of the Company's portfolio to increase diversity, reduce loan-to-value and provide liquidity will enable the Company to cope with an economic downturn and take advantage of any opportunities which arise.

While uncertainty remains in the wider property market thanks to Brexit and the woes of traditional retailers, the investment market for industrial property has remained strong over the past year. Yields for both prime and secondary industrial real estate have contracted once again since this time last year as demand from a range of occupiers continues to lead to increasing rents, in both the multi-let and the logistics sectors. Indeed industrial property yields are now keener than immediately before the global financial crisis.

The industrial sector outperformed other sectors in 2018/19 and it is anticipated that it will continue to drive all-property returns over the next 12 months and beyond. Activity in the industrial sector has been robust in the past year, particularly for smaller and mid-sized units in London and the South East. We believe that the industrial sector is more insulated from the instability created in Westminster and Brussels, and the fall in the value of the pound has helped UK manufacturers and this is reflected in the take-up of smaller and mid-sized units.

The multi-let sector in particular is characterised by a lack of supply with limited speculative development, with this imbalance most acute in and around London. In spite of the turbulence in political spheres and sluggish economic indicators, many investors still consider real estate to be an attractive asset class when compared to other investment opportunities. Industrial property is widely considered to be less exposed to economic uncertainties than other sectors, partly due to the growth in online retailing creating higher demand for industrial space and partly due to the reasons outlined above.

## **STATEMENT OF PRINCIPAL RISKS AND UNCERTAINTIES**

### **Risks Relating to the REIT status of the Company**

The basis of taxation of any Shareholder's holding in the Company will differ or change fundamentally if the Group fails or ceases to maintain its REIT status as the Group was set up to benefit from this structure. The requirements for maintaining REIT status are complex. There is a risk that the REIT Regime may cease to apply in some circumstances. The Group will continue to manage its operations with a view to compliance with the REIT conditions with close attention from the Board.

### **Risks Relating to Gearing**

Shareholders should be aware that, whilst the use of borrowings should enhance the net asset value of the Group where the value of the Group's underlying assets is rising, it will have the opposite effect where the underlying asset value is falling. This may further increase the volatility of the net asset value of the Group. In addition, in the event that the rental income of the Group's portfolio falls for whatever reason, the use of borrowings will increase the impact of such a fall on the net revenue of the Group and accordingly will have an adverse effect on the Group's ability to pay dividends to Shareholders.

The use of borrowings by the Group also exposes it to capital risks and interest costs. The use of leverage increases the exposure of investments to adverse economic factors such as rising interest rates, severe economic downturns or deteriorations in the condition of an investment or its market. In particular, the Group may be required to realise investments to fund the repayment of the Group's borrowings at a time when the value of such investments is depressed because of adverse market conditions. The Group has entered into interest rate caps, for economic hedging, to limit exposure to higher interest rates. The Group carefully selects properties for acquisition to maintain value.

**Risks Relating to Gearing (continued)**

Future compliance with the Group's banking covenants depends on a number of factors including general financial conditions, which cannot be predicted. If real estate assets owned by the Group (or its subsidiaries) decrease in value such covenants could be inadvertently breached, and the impact of such an event could include: an increase in borrowing costs; a call for additional capital from the lender; or payment of a fee to the lender; or in such cases where other remedies were not available, it could require a sale of an asset, or a forfeit of any asset to a lender, this could result in a total or partial loss of equity value for each specific asset, or indeed the Group as a whole. The Board will closely monitor compliance with the banking covenants and maintain the overall gearing against the value and quality of the property portfolio.

**Conditions affecting the UK property market**

The Group's performance will be affected by, amongst other things, general conditions affecting the UK property market, as a whole or specific to the Group's investments, including decrease in capital values and weakening of rental yields. The value of industrial real estate in the UK has fluctuated sharply as a result of the economic recession, reductions in available credit and changes in market confidence. The Group's ability to dispose of its properties, and the price realised in any such disposals, will also depend on the general conditions affecting the investment market at the time of the disposal. The Group's business and results of operations may be materially adversely affected by a number of factors outside of its control, including but not limited to (i) a general property market contraction, (ii) a decline in property rental values, and (iii) changes in laws and governmental regulations in relation to property, including those relating to permitted and planning usage, taxes and government charges, health and safety and environmental compliance.

If conditions affecting the investment market negatively impact the price at which the Group is able to dispose of its assets, or if the Group suffers a material decrease in property rental income, or if the Group suffers a material increase in its operating costs, this may have a material adverse effect on the Group's business and results of operations. The Group mitigates this risk by careful selection of properties for acquisition within its target sector having particular regard to location and the covenant strength of the tenants.

**Risks arising from the UK's decision to leave the European Union**

The government's current plan is for the UK to leave the European Union (EU) on 31 October 2019, however this is far from certain. While the decision to leave has been made, the UK's future relationship with the EU and the implications of leaving the EU on UK law and the economy are still highly uncertain, despite the vote to leave having taken place over three years ago.

Since the referendum vote in June 2016 the real estate investment market has been somewhat subdued, however the devaluation of sterling following the referendum result has attracted foreign investment into UK real estate. Occupiers have adopted a cautious approach as they wait for more clarity on the withdrawal agreement and the future relationship with the EU and on how this will impact their trade and the UK economy in general. Despite being 12 months on from our last annual report, there is little further clarity on when the UK will leave the EU, under what terms and what the future relationship with the EU will be, and thus the risks associated with Brexit are unchanged from 12 months ago. The Group's closed ended structure affords it some insulation as it does not need to sell properties to fund redemptions. Given the lack of clarity surrounding Brexit there remains a risk that in the medium to long term, once the UK finally leaves the EU, the Group's portfolio may decline in value in line with a wider market malaise.

Leaving the EU may also affect a number of related markets affecting the Group's activities, including the retail industry, the operational performance of tenants and contractors, and availability of finance on attractive terms.

While Parliament has now passed legislation to repeal the European Communities Act 1972 and transpose existing EU legislation onto the UK's statute books, there is scant comfort, given the current political instability, that this legislation will not be amended or replaced once the UK has left the EU. Changes in legislation could generate additional compliance costs for the Company.



**Operational performance of tenants and tenant default**

Both the rental income and the market value of the properties acquired by the Group will be affected by the operational performance of the related business being carried on in the property and the general financial performance of the operator. The operational performance of a tenant will be affected by local conditions such as household incomes. Both rental income and market values may also be affected by other factors specific to the UK industrial property market, such as competition from other property funds. 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 re-letting, 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 Group receives regular reports on concentrations of risk and any tenants in arrears. The Property Manager monitors such reports in order to anticipate and minimise the impact of defaults by occupational tenants.

**Subjective nature of valuations**

The value of property and property related assets is inherently subjective due to the individual nature of each property. In determining the value of properties and property-related assets, valuers are required to make assumptions in respect of matters including, but not limited to, the existence of willing sellers in uncertain market conditions, title, condition of structure and services, deleterious materials, plant and machinery and goodwill, environmental matters, statutory requirements and planning, expected future rental revenues from the property and other information. Such assumptions may prove to be inaccurate. Incorrect assumptions underlying the valuation reports could negatively affect the value of any property assets the Group acquires and thereby have a material adverse effect on the Group's financial condition. This is particularly so in periods of volatility or when there is limited real estate transactional data against which property valuations can be benchmarked. This risk is minimised by the appointment of external property valuers who are independent and professional.

**Risks relating to the reliance on the Property Manager, the AIFM and their respective key Individuals**

The ability of the Group to achieve its Investment Objective depends on the ability of the Property Manager and the AIFM to identify, select and execute investments which offer the potential for satisfactory returns. The availability of suitable investment opportunities will depend, in part, upon conditions in the UK industrial real estate market and the level of competition for assets in that market. The Board and the Property Manager review strategic opportunities on an ongoing basis.

Accordingly, the ability of the Group to achieve its Investment Objective depends heavily on the experience of the Property Manager's and the AIFM's teams, and more generally on the ability of the Property Manager and the AIFM to attract and retain suitable staff. The underperformance or the departure of key skilled professionals from the Property Manager and/or the AIFM could have a material adverse effect on the Group's business and financial condition and on the results of its operations. The Board monitors the performance of the AIFM and the Property Manager and has the ability to change or vary their appointment subject to relevant notice requirement.

The Strategic Report was approved by the board and signed on its behalf by:-



Toby Dean

Director

2 October 2019

## CLIPSTONE INDUSTRIAL REIT PLC DIRECTORS' REPORT

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The Directors present their Report and Financial Statements of the Company for the year to 30 June 2019.

### Results and dividends

The results for the year are set out in the attached financial statements.

Interim dividends totalling 5.25 pence per share were paid during the year comprising dividends of 1.25 pence per share paid on 22 August 2018, 1.25 pence per share on 22 November 2018, 1.25 pence per share on 30 January 2019 and 1.50 pence per share on 22 May 2019. A further interim dividend of 1.50 pence per share was paid on 22 August 2019.

### Principal Activity and Status

The Company is registered as a public limited company under the Companies Act 2006 (number 9046897). It is an investment company as defined by Section 833 of the Companies Act 2006.

### Taxation

The group operates as a Real Estate Investment Trust and therefore profits and gains from its qualifying property rental business are expected to be exempt from corporation tax.

### Going Concern

The Directors have had regard to the guidance issued by the Financial Reporting Council in assessing the going concern basis of accounting. After making enquiries and considering the nature of the Company's business and assets, the Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future. Therefore the financial statements have been prepared on the going concern basis.

### Directors

The Directors of the Company during the year and their shareholdings were:

|                              | <u>30 June 2019</u> | <u>30 June 2018</u> |
|------------------------------|---------------------|---------------------|
| Nicholas Stephen Lyons       | 236,925             | 236,925             |
| Karl Stephen Sternberg       | 396,182             | 240,000             |
| Toby John Grenville Dean     | 11,820,197          | 3,068,267           |
| Richard Robert Dury Demarchi | -                   | -                   |

### Post Balance Sheet Events

Details of post balance sheet events are given in the Chairman's Report on page 3.

### Financial Risk Management

Details of financial risk management are given in Note 22.

### Future Development

Details of future developments are disclosed in the Strategic Report on page 5.

### Directors' Indemnity Insurance

The directors have a benefit of an indemnity in respect of liabilities arising out of the proper performance of their duties and an exclusion of liability save to the extent of any negligence, fraud, wilful default and breach of duty.

### Statement of Disclosure to Auditors

So far as each of the Directors is aware, there is no relevant audit information of which the Company's auditor is unaware. Additionally, the directors have taken all the necessary steps that they ought to have taken as Directors in order to make themselves aware of all relevant audit information and to establish that the Company's Auditor is aware of that information.

**CLIPSTONE INDUSTRIAL REIT PLC**  
**DIRECTORS' REPORT (Continued)**

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**Auditor**

The Independent Auditor's Report can be found on page 11. Moore Kingston Smith LLP were appointed as auditor to the company and in accordance with section 485 of the Companies Act 2006, a resolution proposing that they be re-appointed will be put at a General Meeting.

**Annual General Meeting**

The Annual General Meeting of the Company will be held at the offices of Clipstone Investment Management Limited at 45 Albemarle Street, London, W1S 4JL on 5 November 2019.

By order of the Board



Clipstone Investment Management Limited  
Secretary

Date: 2 October 2019

**CLIPSTONE INDUSTRIAL REIT PLC**  
**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

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**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 and the profit or loss of the Company and the Group for that period.

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group 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 Company and the Group 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 United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CLIPSTONE INDUSTRIAL REIT PLC

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### Opinion

We have audited the financial statements of Clipstone Industrial REIT Plc ('the parent company') and its subsidiaries for the year ended 30 June 2019 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Parent Company Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Parent Company Statement of Changes in Equity, the Consolidated Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 'The Financial Reporting Standard Applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the Financial Statements:

- give a true and fair view of the state of the Group's and the Company's affairs as at 30 June 2019 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the audit of the financial statements section of our report. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. 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.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CLIPSTONE LOGISTICS REIT PLC (Continued)

| Key audit matter and description   | Audit Approach   |
|--|--|
| <p><b>Valuation of investment properties</b></p> <p>The group holds an investment portfolio of logistics and industrial properties, with an aim to generate capital returns for its shareholders. The value of this portfolio forms the majority of the balance sheet assets.</p> <p>The valuation of investment properties requires an estimation and the directors have enlisted the services of an independent valuer to assist in this regard.</p> | <ul style="list-style-type: none"> <li>- We assessed the Group's external property valuer's objectivity, professional qualifications and resources to complete this service.</li> <li>- We reviewed and audited the independent valuation report provided to us, challenging the key assumptions and the valuation methodology used with reference to publically available industry data and industry experience.</li> <li>- We have analytically reviewed the movement in the valuation of properties from the prior year, and obtained the rationale for any change not in line with our expectations. We based our expectations on our experience and current industry benchmarks.</li> <li>- We reviewed the information provided by the Group to the external property valuer and verified these to supporting documentation.</li> <li>- We considered the adequacy of the Company's disclosures about the degree of estimation and sensitivity to key assumptions made when valuing properties.</li> </ul> |

### Our application of materiality

The scope and focus of our audit was influenced by our assessment and application of materiality. We define materiality as the magnitude of misstatement that could reasonably be expected to influence the readers and the economic decisions of the users of the financial statements. We use materiality to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Due to the nature of the Group we considered the gross asset value to be the main focus for the readers of the financial statements, accordingly this consideration influenced our judgement of materiality. Based on our professional judgement, we determined materiality for the Group to be £1,113,474, based on a percentage of gross assets.

On the basis of our risk assessments, together with our assessment of the overall control environment, our judgement was that performance materiality (i.e. our tolerance for misstatement in an individual account or balance) for the Group was 50% of materiality, namely £556,737.

We agreed to report to the directors all audit differences in excess of £55,674, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also reported to the directors 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 entire Group is audited by one audit team, led by the senior statutory auditor. Our approach in respect of key audit matters is set out in the table in the Key Audit Matters Section above.

The audit is performed centrally and comprises all of the companies with the Group all of which were visited by audit teams.

**Other information**

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

**Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

**Matter on which we are required to report under the Companies Act 2006**

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- 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; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

**Responsibilities of directors**

As explained more fully in the Statement of Directors' Responsibilities set out on page 10, the directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the directors are responsible for assessing the Group's and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CLIPSTONE LOGISTICS REIT PLC (Continued)

### Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK) we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's or the parent company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group or the parent company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### Use of our report

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 for no purpose other than to draw to the attention of the company's members those matters which we are required to include in an auditor's report addressed to them. To the fullest extent permitted by law, we do not accept or assume responsibility to any party other than the company and company's members as a body, for our work, for this report, or for the opinions we have formed.



Matthew Meadows (Senior Statutory Auditor)  
for and on behalf of Moore Kingston Smith LLP, Statutory Auditor  
Devonshire House  
60 Goswell Road  
London  
EC1M 7AD



**CLIPSTONE INDUSTRIAL REIT PLC**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 30 JUNE 2019**

|  | Notes | Year ended<br>30 June 2019<br>£ | Year ended<br>30 June 2018<br>£ |
|--|-------|---------------------------------|---------------------------------|
| <b>Turnover - Rental income</b>                          |       | <u>8,974,016</u>                | <u>6,434,628</u>                |
| <b>Cost of sales</b>                                     |       |                                 |                                 |
| - Direct property expenses                               |       | (651,305)                       | (334,466)                       |
| - Property management expenses                           |       | (1,549,961)                     | (936,668)                       |
|  |       | <u>(2,201,266)</u>              | <u>(1,271,134)</u>              |
| <b>Gross profit</b>                                      |       | <u>6,772,750</u>                | <u>5,163,494</u>                |
| Other operating income                                   |       | 1,500                           | -                               |
| Administrative expenses                                  |       | (635,942)                       | (234,055)                       |
| Gain on disposal of investment properties                | 7     | 2,077,290                       | -                               |
| Value adjustments  |       |                                 |                                 |
| - Fair value of investment properties                    | 13    | 4,197,651                       | 7,675,641                       |
| - Value of incentives on investment properties           | 13    | 1,647,175                       | (671,018)                       |
| - Derivative financial instruments                       |       | 302,329                         | 71,065                          |
|  |       | <u>7,590,003</u>                | <u>6,841,633</u>                |
| <b>Operating profit</b>                                  | 4     | <u>14,362,753</u>               | <u>12,005,127</u>               |
| Interest receivable                                      |       | 47,786                          | 2,837                           |
| Interest payable   | 8     | (2,163,046)                     | (1,299,596)                     |
| <b>Profit on ordinary activities before tax</b>          |       | <u>12,247,493</u>               | <u>10,708,368</u>               |
| Corporation tax  | 9     | (26,485)                        | -                               |
| <b>Total comprehensive income for the financial year</b> |       | <u>12,221,008</u>               | <u>10,708,368</u>               |
| <b>Earnings per ordinary share</b>                       |       |                                 |                                 |
| Basic and diluted (pence per share)                      | 11    | <u>14.7</u>                     | <u>13.4</u>                     |

Turnover and profit on ordinary activities are derived wholly from continuing activities.

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

**CLIPSTONE INDUSTRIAL REIT PLC**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2019**

|  | Notes | 30 June 2019<br>£                | 30 June 2018<br>£               |
|--|-------|----------------------------------|---------------------------------|
| <b>Fixed assets</b>  |       |                                  |                                 |
| Intangible fixed assets  | 12    | -                                | -                               |
| Investment properties  | 13    | <u>206,198,351</u>               | <u>125,277,742</u>              |
|  |       | <b>206,198,351</b>               | <b>125,277,742</b>              |
| <b>Current assets</b>  |       |                                  |                                 |
| Debtors  | 15    | 4,682,095                        | 2,627,177                       |
| Cash at bank and in hand                                       |       | <u>1,814,262</u>                 | <u>2,651,615</u>                |
|  |       | <b>6,496,357</b>                 | <b>5,278,792</b>                |
| <b>Creditors: amounts falling due within one year</b>          | 16    | <b>(4,944,064)</b>               | <b>(3,688,753)</b>              |
| <b>Net current assets</b>                                      |       | <u><b>1,552,293</b></u>          | <u><b>1,590,039</b></u>         |
| <b>Total assets less current liabilities</b>                   |       | <b>207,750,644</b>               | <b>126,867,781</b>              |
| <b>Creditors: amounts falling due after more than one year</b> | 17    | <b>(37,226,050)</b>              | <b>(48,100,750)</b>             |
| <b>Net assets</b>  |       | <u><u><b>170,524,594</b></u></u> | <u><u><b>78,767,031</b></u></u> |
| <b>Capital and reserves</b>                                    |       |                                  |                                 |
| Called up share capital  | 19    | 1,195,276                        | 584,813                         |
| Share premium account  | 19    | 108,679,849                      | 20,850,719                      |
| Capital reduction reserve                                      | 19    | 39,000,000                       | 39,000,000                      |
| Capital redemption reserve                                     |       | 36,856                           | -                               |
| Investment revaluation reserve                                 |       | 13,483,829                       | 16,125,468                      |
| Profit and loss account  |       | 8,128,784                        | 2,206,031                       |
| <b>Shareholders' funds</b>                                     |       | <u><u><b>170,524,594</b></u></u> | <u><u><b>78,767,031</b></u></u> |
| <b>Net asset value per ordinary share (pence)</b>              | 20    | <u><u><b>143</b></u></u>         | <u><u><b>135</b></u></u>        |

The Company's profit for the year was £14,942,664 (2018: £4,371,147).

These financial statements were approved and authorised for issue by the board on 2 October 2019 and were signed on its behalf by:-

Toby Dean

Director

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

Registered number 09046897

**CLIPSTONE INDUSTRIAL REIT PLC**  
**PARENT COMPANY STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2019**

|  | Notes | <u>30 June 2019</u><br>£ | <u>30 June 2018</u><br>£ |
|--|-------|--------------------------|--------------------------|
| <b>Fixed assets</b>  |       |                          |                          |
| Investment in subsidiary undertakings                          | 14    | 138,168,146              | 24,904,161               |
| <b>Current assets</b>  |       |                          |                          |
| Debtors  | 15    | 20,333,012               | 76,863,342               |
| Cash at bank and in hand                                       |       | 218,557                  | 2,476,576                |
|  |       | <u>20,551,569</u>        | <u>79,339,918</u>        |
| <b>Creditors: amounts falling due within one year</b>          | 16    | (961,185)                | (1,814,019)              |
| <b>Net current assets</b>                                      |       | <u>19,590,384</u>        | <u>77,525,899</u>        |
| <b>Total assets less current liabilities</b>                   |       | 157,758,530              | 102,430,060              |
| <b>Creditors: amounts falling due after more than one year</b> | 17    | -                        | (39,150,750)             |
| <b>Net assets</b>  |       | <u>157,758,530</u>       | <u>63,279,310</u>        |
| <b>Capital and reserves</b>                                    |       |                          |                          |
| Called up share capital  | 19    | 1,195,276                | 584,813                  |
| Share premium account  | 19    | 108,679,849              | 20,850,719               |
| Capital reduction reserve                                      | 19    | 39,000,000               | 39,000,000               |
| Capital redemption reserve                                     |       | 36,856                   | -                        |
| Profit and loss account  |       | 8,846,549                | 2,843,778                |
| <b>Shareholders' funds</b>                                     |       | <u>157,758,530</u>       | <u>63,279,310</u>        |

These financial statements were approved and authorised for issue by the board on 2 October 2019 and were signed on its behalf by:-

Toby Dean

Director

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

Registered number 09046897

**CLIPSTONE INDUSTRIAL REIT PLC**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 30 JUNE 2019**

|  | <u>Share<br/>Capital</u><br>£ | <u>Share<br/>Premium</u><br>£ | <u>Capital<br/>Reduction<br/>Reserve</u><br>£ | <u>Capital<br/>Redemption<br/>Reserve</u><br>£ | <u>Revaluation<br/>Reserve</u><br>£ | <u>Retained<br/>Earnings</u><br>£ | <u>Total</u><br>£  |
|--|-------------------------------|-------------------------------|---|--|-------------------------------------|-----------------------------------|--------------------|
| Balance at 1 July 2017   | 557,519                       | 17,634,065                    | 39,000,000                                    | -  | 9,120,845                           | 1,392,235                         | 67,704,664         |
| Shares issued in the year  | 27,294                        | 3,222,706                     | -   | -  | -                                   | -                                 | 3,250,000          |
| Share issue costs  | -                             | (6,052)                       | -   | -  | -                                   | -                                 | (6,052)            |
| Profit for the year  | -                             | -                             | -   | -  | -                                   | 10,708,368                        | 10,708,368         |
| Unrealised loss on revaluation of investment property transferred to revaluation reserve | -                             | -                             | -   | -  | 7,004,623                           | (7,004,623)                       | -                  |
| Dividends paid (see note 10)   | -                             | -                             | -   | -  | -                                   | (2,889,949)                       | (2,889,949)        |
| <b>Balance at 30 June 2018</b>   | <b>584,813</b>                | <b>20,850,719</b>             | <b>39,000,000</b>                             | <b>-</b>                                       | <b>16,125,468</b>                   | <b>2,206,031</b>                  | <b>78,767,031</b>  |
| Shares issued in the year  | 647,319                       | 87,860,928                    | -   | -  | -                                   | -                                 | 88,508,247         |
| Share issue costs  | -                             | (31,798)                      | -   | -  | -                                   | -                                 | (31,798)           |
| Shares repurchased   | (36,856)                      | -                             | -   | 36,856   | -                                   | (5,000,000)                       | (5,000,000)        |
| Profit for the year  | -                             | -                             | -   | -  | -                                   | 12,221,008                        | 12,221,008         |
| Realised gains on disposal of investment property recognised in previous periods         | -                             | -                             | -   | -  | (8,486,465)                         | 8,486,465                         | -                  |
| Unrealised gain on revaluation of investment property transferred to revaluation reserve | -                             | -                             | -   | -  | 4,197,651                           | (4,197,651)                       | -                  |
| Lease incentive valuation adjustment transferred to revaluation reserve                  | -                             | -                             | -   | -  | 1,647,175                           | (1,647,175)                       | -                  |
| Dividends paid (see note 10)   | -                             | -                             | -   | -  | -                                   | (3,939,894)                       | (3,939,894)        |
| <b>Balance at 30 June 2019</b>   | <b>1,195,276</b>              | <b>108,679,849</b>            | <b>39,000,000</b>                             | <b>36,856</b>                                  | <b>13,483,829</b>                   | <b>8,128,784</b>                  | <b>170,524,594</b> |

Retained earnings and the capital reduction reserve are distributable to shareholders by way of dividends.

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

**CLIPSTONE INDUSTRIAL REIT PLC**  
**PARENT COMPANY STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 30 JUNE 2019**

|                                | <u>Share<br/>Capital</u><br>£ | <u>Share<br/>Premium</u><br>£ | <u>Capital<br/>Reduction<br/>Reserve</u><br>£ | <u>Capital<br/>Redemption<br/>Reserve</u><br>£ | <u>Retained<br/>Earnings</u><br>£ | <u>Total</u><br>£  |
|--------------------------------|-------------------------------|-------------------------------|---|--|-----------------------------------|--------------------|
| Balance at 1 July 2017         | 557,519                       | 17,634,065                    | 39,000,000                                    | -  | 1,362,580                         | 58,554,164         |
| Shares issued in the year      | 27,294                        | 3,222,706                     | -   | -  | -                                 | 3,250,000          |
| Share issue costs              | -                             | (6,052)                       | -   | -  | -                                 | (6,052)            |
| Profit for the year            | -                             | -                             | -   | -  | 4,371,147                         | 4,371,147          |
| Dividends paid (see note 10)   | -                             | -                             | -   | -  | (2,889,949)                       | (2,889,949)        |
| Balance at 30 June 2018        | 584,813                       | 20,850,719                    | 39,000,000                                    | -  | 2,843,778                         | 63,279,310         |
| Shares issued in the year      | 647,319                       | 87,860,928                    | -   | -  | -                                 | 88,508,247         |
| Share issue costs              | -                             | (31,798)                      | -   | -  | -                                 | (31,798)           |
| Shares repurchased             | (36,856)                      | -                             | -   | 36,856   | (5,000,000)                       | (5,000,000)        |
| Profit for the year            | -                             | -                             | -   | -  | 14,942,665                        | 14,942,665         |
| Dividends paid (see note 10)   | -                             | -                             | -   | -  | (3,939,894)                       | (3,939,894)        |
| <b>Balance at 30 June 2019</b> | <b>1,195,276</b>              | <b>108,679,849</b>            | <b>39,000,000</b>                             | <b>36,856</b>                                  | <b>8,846,549</b>                  | <b>157,758,530</b> |

Retained earnings and the capital reduction reserve are distributable to shareholders by way of dividends.

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

**CLIPSTONE INDUSTRIAL REIT PLC**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 30 JUNE 2019**

|   | <b>Year ended</b><br><b>30 June 2019</b> | <b>Year ended</b><br><b>30 June 2018</b> |
|---|--|--|
|   | £  | £  |
| <b>Cash flows from operating activities</b>                     |  |  |
| Profit for the financial year                                   | 12,221,008                               | 10,708,368                               |
| Adjustments for:  |  |  |
| Gain on disposal of investment properties                       | (2,077,290)                              | -  |
| Unrealised revaluation of investment properties                 | (4,197,651)                              | (7,675,641)                              |
| Movement in lease incentive valuation                           | (1,647,175)                              | 671,018                                  |
| Unrealised value adjustment of derivative financial instruments | (302,329)                                | (71,065)                                 |
| Impairment of goodwill  | 83,537                                   | -  |
| Interest payable  | 2,163,046                                | 1,299,596                                |
| Interest receivable   | (47,786)                                 | (2,837)                                  |
| Corporation tax   | 26,485                                   | -  |
| Change in debtors and accrued income                            | (1,027,283)                              | (669,532)                                |
| Change in creditors and accruals                                | (7,231,111)                              | 256,769                                  |
| <b>Cash from operations</b>                                     | <b>(2,036,549)</b>                       | <b>4,516,676</b>                         |
| Interest paid   | (2,202,282)                              | (1,264,308)                              |
| Interest received   | 47,786                                   | 2,837                                    |
| Corporation tax paid  | (26,485)                                 | -  |
| <b>Net cash from operating activities</b>                       | <b>(4,217,530)</b>                       | <b>3,255,205</b>                         |
| <b>Cash flows from investing activities</b>                     |  |  |
| Acquisition of subsidiaries net of cash                         | 865,817                                  | -  |
| Purchase of investment property                                 | (4,632,646)                              | (7,213,359)                              |
| Disposal of investment properties                               | 84,204,116                               | -  |
| <b>Net cash from investing activities</b>                       | <b>80,437,287</b>                        | <b>(7,213,359)</b>                       |
| <b>Cash flows from financing activities</b>                     |  |  |
| Proceeds from issue of ordinary shares (net of issue costs)     | 1,869,700                                | 3,243,948                                |
| Repurchase of Company shares                                    | (5,000,000)                              | -  |
| Proceeds from loan financing                                    | 36,000,000                               | 4,025,000                                |
| Loan repayments   | (104,955,271)                            | (725,000)                                |
| Repayments under finance leases                                 | (58,292)                                 | -  |
| Dividends paid  | (4,913,247)                              | (2,889,949)                              |
| <b>Net cash from financing activities</b>                       | <b>(77,057,110)</b>                      | <b>3,653,999</b>                         |
| <b>Net increase/(decrease) in cash and cash equivalents</b>     | <b>(837,353)</b>                         | <b>(304,155)</b>                         |
| Cash and cash equivalents at the beginning of the year          | 2,651,615                                | 2,955,770                                |
| <b>Cash and cash equivalents at the end of the year</b>         | <b>1,814,262</b>                         | <b>2,651,615</b>                         |
| <b>Components of cash and cash equivalents</b>                  |  |  |
| Cash  | 1,814,262                                | 2,651,615                                |
|   | <b>1,814,262</b>                         | <b>2,651,615</b>                         |

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

**CLIPSTONE INDUSTRIAL REIT PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**1 Corporate information**

Clipstone Logistics REIT plc (the Company) is a public limited company incorporated and domiciled in England and Wales whose shares are publicly traded on The International Stock Exchange.

**2 Basis of Preparation and Accounting Policies**

**(a) Basis of Preparation of financial statements**

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

**Basis of Accounting**

The consolidated financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102 - the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) - and with the Companies Act 2006.

The financial statements have been prepared under the historical cost convention as modified by the revaluation of investment properties. The presentation currency is £ sterling.

The Company has taken advantage of section 408 of the Companies Act 2006 and has not included its own statement of comprehensive income in these financial statements. The Company's profit for the year was £14,942,664 (2018: £4,374,147).

The individual financial statements of the Company have also adopted the following disclosure exemptions:

- the requirement to present a statement of cash flows, as per FRS 102.1.12(b).
- financial instrument disclosure including categories of financial instruments, as per FRS 102.1.12(c).

**Basis of Consolidation**

The consolidated financial statements incorporate the audited financial statements of the Company and its subsidiaries, as at the balance sheet date. Subsidiaries are those entities controlled by the Company. Control exists where the Company has the power, directly or indirectly, to direct the financial and operating policies of an entity so as to obtain benefits from its activities. All intragroup transactions are eliminated on consolidation.

**Business Combinations**

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

The cost of a business combination is the fair value of the consideration given, liabilities incurred or assumed and of equity instruments issued plus the costs directly attributable to the business combination.

Where such acquisitions are not judged to be the acquisition of a business, they are not treated as business combinations. Rather, the cost to acquire the corporate entity is allocated between the identifiable assets and liabilities of the entity based upon their fair values at the acquisition date. Accordingly, no goodwill or additional deferred taxes arise.

**Going Concern**

After due consideration of the future cash flows of the Company, the Directors are confident that the Company has sufficient financial resources to meet its obligations as a going concern for the foreseeable future, being more than 12 months from the date of approving the financial statements. The financial statements have therefore been prepared on the going concern basis.

**2 Basis of Preparation and Accounting Policies (continued)**

**(b) Revenue Recognition**

**Rental Income**

Rental income excluding VAT arising on investment properties is accounted for in the statement of comprehensive income on a straight-line basis over the terms of the individual leases. Lease incentives are amortised on a straight-line basis over the lease term. Rental income received in advance is recognised as deferred income and disclosed within creditors. Rental income earned but not received is recognised as accrued income and disclosed within debtors.

**Interest Income**

Interest income is accounted for on an effective interest rate method.

**(c) Expenses**

Expenses are accounted for on an accruals basis. The Group's management and administration fees, finance costs and all other expenses are charged to the statement of comprehensive income.

**(d) Dividends**

Dividends are accounted for in the period in which they are paid. Dividends are recognised as a liability when they have been approved.

**(e) Taxation**

The group operates as a Real Estate Investment Trust (REIT) and therefore profits and gains from its qualifying property rental business are expected to be exempt from direct taxation provided the REIT conditions are met.

Taxation on any profit or loss for the period not exempt under UK-REIT regulations comprises current and deferred tax. Taxation is recognised in the statement of comprehensive income.

Corporation tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all available evidence, it can be regarded as probable that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

**(f) Investments in Subsidiaries**

The Company recognises investment in subsidiaries at cost less impairment in its statement of financial position.

**(g) Investment Properties**

Investment properties consist of land and buildings which are not occupied for use by or in the operations of the Group or for sale in the ordinary course of business but are held to earn rental income together with the potential capital and income growth.

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



**2 Basis of Preparation and Accounting Policies (continued)**

**(g) Investment Properties (continued)**

After initial recognition, investment properties are measured at fair value with gains and losses recognised in the statement of comprehensive income. Deferred tax is not provided on these gains or losses as corporation tax is not expected to be paid on capital gains arising from the Group's qualifying property rental business under the REIT regime. Fair value is based on an independent open market valuation provided by a RICS recognised Chartered Surveyor, at the balance sheet date using recognised valuation techniques.

In arriving at the fair value in the statement of financial position, any deferred rent receivable or lease incentives are taken into consideration in reporting the carrying amount of the investment properties.

**(h) Rent and Other Debtors**

Debtors are recognised initially at fair value, subsequently at amortised cost. A provision for impairment is established where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the debtors concerned.

Rents receivable, which are generally due for settlement at the relevant quarter end are recognised and carried at the original invoice amount less an allowance for any uncollectable amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

**(i) Cash at Bank and in Hand**

Cash at bank and in hand consists of cash held in banks and on-demand deposits in banks.

**(j) Creditors**

Creditors are recognised initially at fair value, subsequently at amortised cost.

**(k) Derivative financial instruments**

The Group uses interest-rate caps for economic hedging to manage its market risk. All derivatives are initially recognised at fair value at the date the derivative is entered into and are subsequently re-measured at fair value. The fair values of interest-rate caps are based on counterparty or market quotes.

**(l) Loans**

Loans are initially measured at proceeds net of direct issue costs and subsequently measured at amortised cost. Interest payable is accounted for on an accruals basis using the effective interest method.

**(m) Finance leases**

At the commencement of the lease term, rights of use and obligations under finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, determined at the inception of the lease. Any initial direct costs of the lease are added to the amount recognised as an asset. The present value of the minimum lease payments is calculated using the interest rate implicit in the lease.

After initial recognition, minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability using the effective interest method.

The value of investment properties held under finance leases will be measured at the gross value before deductions for any recognised lease liability. The lease liability is added back to the assessed fair value with changes in present value of the remaining net lease liability being accounted for as changes in fair value of the investment property through the statement of comprehensive income.

**2 Basis of Preparation and Accounting Policies (continued)**

**(n) Critical accounting judgements and key estimations of uncertainty**

The preparation of financial statements in conformity with FRS 102 requires management to make significant judgements and estimates.

The area where the Group considers the judgements and key estimations of uncertainty to be most significant involve assumptions or estimates applied in respect of the valuation of investment properties.

The value of property and property related assets is inherently subjective due to the individual nature of each property, its location and the expected future rental revenues from that particular property.

In determining the value of investment properties, valuers are required to make assumptions in respect of matters including, but not limited to, the existence of willing sellers in uncertain market conditions, title, condition of structure and services, deleterious materials, plant and machinery and goodwill, environmental matters, statutory requirements and planning, the structural condition of the properties, tenure and other information. These assumptions are market standard and accord with the Royal Institution of Chartered Surveyors (RICS) Valuation – Professional Standards 2012.

Such assumptions involve a degree of estimation uncertainty and are made on the basis of assumptions which may not prove to be accurate, particularly in periods of volatility or when there is limited real estate transactional data against which property valuations can be benchmarked. Incorrect assumptions underlying the valuation reports could negatively affect the value of Group's investment properties and thereby have a material adverse effect on the Group's financial position. This risk is minimised by the appointment of external property valuers who are independent and professional.

**3 Segmental Information**

The Directors are of the opinion that the Group is engaged in a single segment business, being the investment in the United Kingdom in industrial properties. The results reported represent the segment results for the Group.

**4 Operating Profit**

Operating profit is stated after charging:

|  | <b>Year ended<br/>30 June 2019</b> | <b>Year ended<br/>30 June 2018</b> |
|--|------------------------------------|------------------------------------|
|  | £                                  | £                                  |
| Fees payable to the Company's auditor for:             |                                    |                                    |
| - audit of the Company's annual accounts               | 37,500                             | 36,200                             |
| - audit of the Company's subsidiaries' annual accounts | 15,000                             | 20,000                             |
| - Group tax compliance services                        | 15,188                             | 11,500                             |
|  | <u>          </u>                  | <u>          </u>                  |

**5 Particulars of Employees**

The Group had no employees during the year (2018 - nil), other than the directors.

**6 Directors' Emoluments**

|                                     | <b>Year ended<br/>30 June 2019</b> | <b>Year ended<br/>30 June 2018</b> |
|-------------------------------------|------------------------------------|------------------------------------|
|                                     | £                                  | £                                  |
| Directors' emoluments for the Group | <u>45,885</u>                      | <u>45,957</u>                      |

The directors received fixed fees and are not entitled to any further remuneration.

**CLIPSTONE INDUSTRIAL REIT PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**7 Gain on Disposal of Investment Properties**

|   | <b>Year ended<br/>30 June 2019</b> | <b>Year ended<br/>30 June 2018</b> |
|---|------------------------------------|------------------------------------|
|   | £                                  | £                                  |
| Disposal proceeds                                     | 84,687,476                         | -                                  |
| Book cost   | (71,560,035)                       | -                                  |
| Unrealised losses/(gains) recognised in prior periods | (8,486,465)                        | -                                  |
| Disposal costs  | (483,360)                          | -                                  |
| Lease incentive asset reversed on disposal            | (2,080,326)                        | -                                  |
|   | <u>2,077,290</u>                   | <u>-</u>                           |

On 21 December 2019 the Group sold five distribution warehouse properties for £84,687,476, realising a profit since acquisition of £10,563,755.

**8 Interest Payable**

|                                    | <b>Year ended<br/>30 June 2019</b> | <b>Year ended<br/>30 June 2018</b> |
|------------------------------------|------------------------------------|------------------------------------|
|                                    | £                                  | £                                  |
| Bank loan interest payable         | 1,369,065                          | 1,299,596                          |
| Bank loan issue costs              | 736,178                            | -                                  |
| Interest payable on finance leases | 57,803                             | -                                  |
|                                    | <u>2,163,046</u>                   | <u>1,299,596</u>                   |

**9 Corporation Tax**

|  | <b>Year ended<br/>30 June 2019</b> | <b>Year ended<br/>30 June 2018</b> |
|--|------------------------------------|------------------------------------|
|  | £                                  | £                                  |
| Current tax:                               |                                    |                                    |
| UK corporation tax on profits for the year | -                                  | -                                  |
| Adjustment in respect of prior years       | 26,485                             | -                                  |
|  | <u>26,485</u>                      | <u>-</u>                           |

The tax charge for the year is lower than the standard rate of corporation tax in the UK during the year of 19%. The differences are explained below:

|  | <b>Year ended<br/>30 June 2019</b> | <b>Year ended<br/>30 June 2018</b> |
|--|------------------------------------|------------------------------------|
|  | £                                  | £                                  |
| Profit before tax  | <u>12,247,493</u>                  | <u>10,708,368</u>                  |
| Corporation tax at effective rate of 19.00% (2018: 19.00%) | 2,327,024                          | 2,034,590                          |
| Effect of:   |                                    |                                    |
| REIT tax exempt property rental profits and gains          | (2,327,024)                        | (2,034,590)                        |
| Adjustment in relation to prior years                      | 26,485                             | -                                  |
|  | <u>26,485</u>                      | <u>-</u>                           |
| Effective corporation tax rate                             | <u>0.2%</u>                        | <u>0.0%</u>                        |

**CLIPSTONE INDUSTRIAL REIT PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

| <b>10 Dividends</b>   | <b>Year ended<br/>30 June 2019</b> | <b>Year ended<br/>30 June 2018</b> |
|---|------------------------------------|------------------------------------|
|   | £                                  | £                                  |
| Interim dividends paid of 5.25p (2018 - 5.00p) per ordinary share | <u>3,939,894</u>                   | <u>2,889,949</u>                   |

An interim dividend of 1.50 pence per share was declared on 30 July 2019 and paid on 22 August 2019.

**11 Earnings Per Share**

Basic earnings per share is calculated by dividing net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year. As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

|   | <b>Year ended<br/>30 June 2019</b> | <b>Year ended<br/>30 June 2018</b> |
|---|------------------------------------|------------------------------------|
|   | £                                  | £                                  |
| Net profit attributable to ordinary shares          | <u>12,221,008</u>                  | <u>10,708,368</u>                  |
| Weighted average number of ordinary shares:         |                                    |                                    |
| Issued ordinary shares at the start of the year     | 58,481,337                         | 55,751,850                         |
| Effect of shares issued during the year             | 26,459,683                         | 2,377,053                          |
| Effect of shares bought back during the year        | (1,933,972)                        |                                    |
| Basic and diluted weighted average number of shares | <u>83,007,048</u>                  | <u>58,128,903</u>                  |
| Basic and diluted earnings per share (pence)        | <u>14.7</u>                        | <u>18.4</u>                        |

**12 Goodwill**

On 31 January 2019 the Company acquired 100% of the units of Clipstone Industrial Unit Trust in exchange for the issue of 63,355,339 shares in the Company at £1.3670. This valued the Unit Trust at £86,606,748. This resulted in goodwill on acquisition which was impaired to £nil when the unit trust was terminated on 30 April 2019.

|  | <b>Goodwill</b> |
|--|-----------------|
| Consideration for units in Clipstone Industrial Unit Trust   | 86,606,748      |
| Net Assets at acquisition of Clipstone Industrial Unit Trust | (86,523,210)    |
| Goodwill arising on acquisition                              | <u>83,538</u>   |
| Impairment   | (83,538)        |
| <b>Goodwill carried forward</b>                              | <u><u>-</u></u> |

**CLIPSTONE INDUSTRIAL REIT PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**13 Investment Properties**

|  | <u>30 June 2019</u> | <u>30 June 2019</u> | <u>30 June 2019</u> | <u>30 June 2018</u> |
|--|---------------------|---------------------|---------------------|---------------------|
|  | <u>Freehold</u>     | <u>Leasehold</u>    | <u>Total</u>        | <u>Total</u>        |
|  | £                   | £                   | £                   | £                   |
| <b>Cost</b>                                |                     |                     |                     |                     |
| Brought forward                            | 109,152,274         | -                   | 109,152,274         | 101,938,915         |
| Acquired with subsidiaries                 | 141,985,000         | 7,815,000           | 149,800,000         | -                   |
| Additions                                  | 4,662,139           | 13,007              | 4,675,146           | 7,213,359           |
| Disposals                                  | (71,560,035)        | -                   | (71,560,035)        | -                   |
| <b>Carried forward</b>                     | <u>184,239,378</u>  | <u>7,828,007</u>    | <u>192,067,385</u>  | <u>109,152,274</u>  |
| <b>Revaluation</b>                         |                     |                     |                     |                     |
| Brought forward                            | 18,111,726          | -                   | 18,111,726          | 10,436,085          |
| Revaluation during the year                | 4,193,361           | 6,993               | 4,200,354           | 7,675,641           |
| Revaluation reversed on disposals          | (8,486,465)         | -                   | (8,486,465)         | -                   |
| <b>Carried forward</b>                     | <u>13,818,622</u>   | <u>6,993</u>        | <u>13,825,615</u>   | <u>18,111,726</u>   |
| <b>Value per independent valuer</b>        | <u>198,058,000</u>  | <u>7,835,000</u>    | <u>205,893,000</u>  | <u>127,264,000</u>  |
| <b>Deferred lease incentives (note 15)</b> |                     |                     |                     |                     |
| Brought forward                            | (1,986,258)         | -                   | (1,986,258)         | (1,315,240)         |
| Movement during the year                   | (437,396)           | 4,245               | (433,151)           | (671,018)           |
| Acquired with subsidiaries                 | (555,696)           | (23,851)            | (579,547)           | -                   |
| Reversed on disposals                      | 2,080,326           | -                   | 2,080,326           | -                   |
| <b>Carried forward</b>                     | <u>(899,024)</u>    | <u>(19,606)</u>     | <u>(918,630)</u>    | <u>(1,986,258)</u>  |
| <b>Long leasehold valuations</b>           |                     |                     |                     |                     |
| Brought forward                            | -                   | -                   | -                   | -                   |
| Acquired with subsidiaries                 | -                   | 1,226,684           | 1,226,684           | -                   |
| Revaluation during the year                | -                   | (2,703)             | (2,703)             | -                   |
| <b>Carried forward</b>                     | <u>-</u>            | <u>1,223,981</u>    | <u>1,223,981</u>    | <u>-</u>            |
| <b>Carrying value</b>                      | <u>197,158,976</u>  | <u>9,039,375</u>    | <u>206,198,351</u>  | <u>125,277,742</u>  |

On 21 December 2018 the Group disposed of five distribution warehouse properties which had a carrying value of £80,046,500

On 31 January 2019 the Group acquired all of the units of Clipstone Industrial Unit Trust, which owned an investment property portfolio valued at £149,800,000 on acquisition.

The Group has restated the valuation of its long leasehold investment properties in line with FRS 102 section 20 to recognise these assets as investment properties held under finance leases. In addition, to avoid double counting of fair value in the statement of financial position, any deferred rent receivable is taken into consideration in reporting the carrying amount of the investment properties.

The fair value of investment properties at 30 June 2019 was determined by the Group's independent valuer, Colliers International Valuation UK LLP. The valuations are in accordance with RICS standards and were arrived at by reference to market evidence of transactions for similar properties. The valuations performed by the independent valuer are reviewed internally by senior management and the directors.

The valuer's opinion of fair value was primarily derived using comparable recent market transactions on arm's length terms and using appropriate valuation techniques. The fair value of investment properties is determined using the income capitalisation approach. Under this approach, forecast net cash flows, based upon current market derived estimated rental values (market rents) together with estimated costs, are discounted at market derived capitalisation rates to produce the valuer's opinion of fair value. The average discount rate, which, if applied to all cash flows, would produce the fair value, is described as the equivalent yield.

**CLIPSTONE INDUSTRIAL REIT PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**14 Investment in Subsidiaries**

|                 | <u>30 June 2019</u> | <u>30 June 2018</u> |
|-----------------|---------------------|---------------------|
|                 | £                   | £                   |
| <b>Cost</b>     |                     |                     |
| Brought forward | 24,904,161          | 24,904,161          |
| Additions       | 274,038,796         | -                   |
| Disposals       | (160,774,811)       | -                   |
| Carried forward | <u>138,168,146</u>  | <u>24,904,161</u>   |

On 31 January, the Group acquired all of the Units of Clipstone Industrial Unit Trust in exchange for new shares issued in the Company for £1.3670 each. The Unit Trust transferred its properties to other Group companies and was subsequently terminated on 30 April 2019.

During the year the Company disposed of its holdings in Clipstone VIII LP, Clipstone Industrials V LLP, Clipstone Industrial Unit Trust and Clipstone Interlink Unit Trust.

|                             | <u>Principal Activity</u> | <u>Date of Acquisition</u> | <u>Country of Incorporation</u> | <u>Ownership %</u> |
|-----------------------------|---------------------------|----------------------------|---------------------------------|--------------------|
| <b>Direct subsidiaries</b>  |                           |                            |                                 |                    |
| Clipstone Ten Limited       | Property Investment       | 2 June 2014                | UK                              | 100%               |
| Clipstone Meir Park Limited | Dormant                   | 2 June 2014                | UK                              | 100%               |
| Clipstone 7 Limited         | Dormant                   | 17 Dec 2014                | UK                              | 100%               |
| Clipstone IX Limited        | Property Investment       | 17 Dec 2014                | UK                              | 100%               |
| Clipstone Interlink Limited | Dormant                   | 17 Dec 2014                | UK                              | 100%               |
| Clipstone Maxx Limited      | Dormant                   | 17 Dec 2014                | UK                              | 100%               |

All of the above entities have been included in the consolidated financial statements.

**15 Debtors**

|                                | <u>30 June 2019</u> | <u>30 June 2018</u> |
|--------------------------------|---------------------|---------------------|
|                                | £                   | £                   |
| <b>Group</b>                   |                     |                     |
| Prepayments and accrued income | 816,487             | 259,918             |
| Trade debtors                  | 835,839             | 183,936             |
| Deferred lease incentives      | 918,630             | 1,986,258           |
| Other debtors                  | 2,111,139           | 197,065             |
|                                | <u>4,682,095</u>    | <u>2,627,177</u>    |
| <b>Company</b>                 |                     |                     |
| Prepayments and accrued income | 26,838              | 251,141             |
| Due from group undertakings    | 20,306,174          | 76,612,201          |
|                                | <u>20,333,012</u>   | <u>76,863,342</u>   |

There is no evidence of default for any debtors and therefore no provision has been made at the year end (2018: none).

There were no debtors due after more than one year.

All intercompany loans are issued at market rates and are repayable on demand.

**CLIPSTONE INDUSTRIAL REIT PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**16 Creditors: Amounts Falling Due Within One Year**

|  | <u>30 June 2019</u> | <u>30 June 2018</u> |
|--|---------------------|---------------------|
|  | £                   | £                   |
| <b>Group</b>                                   |                     |                     |
| Finance lease liabilities (see note 18)        | 144                 | -                   |
| Trade creditors                                | 227,219             | 1,720               |
| Rental income in advance                       | 2,351,990           | 1,339,570           |
| Accruals                                       | 1,334,534           | 856,225             |
| Withholding taxes and other taxes              | 539,293             | 349,779             |
| Bank loans - due within one year               | -                   | 800,000             |
| Derivative financial instruments (see note 17) | 62,581              | 144,940             |
| Other creditors                                | 428,303             | 196,519             |
|  | <u>4,944,064</u>    | <u>3,688,753</u>    |
| <b>Company</b>                                 |                     |                     |
| Trade creditors                                | 19,110              | 948                 |
| Due to group undertakings                      | -                   | 228,803             |
| Accruals                                       | 713,285             | 549,548             |
| Withholding taxes and other taxes              | 166,209             | 89,780              |
| Bank loans - due within one year               | -                   | 800,000             |
| Derivative financial instruments (see note 17) | 62,581              | 144,940             |
|  | <u>961,185</u>      | <u>1,814,019</u>    |

All intercompany loans are issued at market rates and are repayable on demand.

**17 Creditors: Amounts Falling Due After More Than One Year**

|   | <u>30 June 2019</u> | <u>30 June 2018</u> |
|---|---------------------|---------------------|
|   | £                   | £                   |
| <b>Group</b>                                |                     |                     |
| Bank loans - due between one and two years  | -                   | 48,100,750          |
| Bank loans - due between two and five years | 36,000,000          | -                   |
| Finance lease liabilities (see note 18)     | 1,226,050           | -                   |
|   | <u>37,226,050</u>   | <u>48,100,750</u>   |
| <b>Company</b>                              |                     |                     |
| Bank loans - due between one and two years  | -                   | 39,150,750          |
|   | <u>-</u>            | <u>39,150,750</u>   |

On 21 December 2018, the Group repaid in full a loan facility of £8,950,000.

On 30 April 2019, the Company repaid in full its remaining loan facilities. On the same day, Clipstone IX Limited, a subsidiary of the Company, entered into a facility agreement for a £32,000,000 term loan and a £30,000,000 revolving credit facility.

The bank loans mature on 29 April 2022 and are secured by charges over the investment properties owned by Clipstone IX Limited and a debenture from Clipstone IX Limited. Interest is paid at 1.5% over three month LIBOR, the interest cover covenant is 200% and the loan to value covenant 65%.

The Company has entered into interest rate cap contracts to cap interest at 3% on its bank borrowings. At 30 June 2019 the notional amount under the contracts was £30,853,025 (2018: £34,230,525). The contracts terminate on 11 February 2020. The premiums are payable by quarterly instalments of £20,915. At 30 June 2019 the cap contracts had a negative fair value of £62,581 (2018: £144,940).

**CLIPSTONE INDUSTRIAL REIT PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

| <b>18 Finance Leases</b>                                | <b><u>30 June 2019</u></b><br>£ | <b><u>30 June 2018</u></b><br>£ |
|---|---------------------------------|---------------------------------|
| Included within current liabilities                     | 144                             | -                               |
| Included within non-current liabilities                 | 1,226,050                       | -                               |
|   | <u>1,226,194</u>                | <u>-</u>                        |
| Future minimum lease payments due under finance leases: |                                 |                                 |
| within one year   | 116,973                         | -                               |
| in more than one year and less than five years          | 467,892                         | -                               |
| in more than five years                                 | 8,691,255                       | -                               |
|   | <u>9,276,120</u>                | <u>-</u>                        |

The Group's finance leases relate to three long leasehold investment property holdings, the value of which is shown in note 13.

**19 Share Capital and Reserves**

|   | <b><u>Number of</u></b><br><b><u>Shares</u></b> | <b><u>Share</u></b><br><b><u>Capital</u></b><br>£ | <b><u>Share</u></b><br><b><u>Premium</u></b><br>£ | <b><u>Capital</u></b><br><b><u>Reduction</u></b><br><b><u>Reserve</u></b><br>£ | <b><u>30 June 2019</u></b><br><b><u>Total</u></b><br>£ |
|---|---|---|---|--|--|
| Issued and fully paid<br>At 1 July 2018<br>(58,481,337 ordinary<br>shares of £0.01) | 58,481,337                                      | 584,813   | 20,850,719  | 39,000,000   | 60,435,532   |
| Shares repurchased  | (3,685,685)                                     | (36,856)  | -   | -  | (36,856)   |
| 63,355,339 ordinary shares of 1p<br>each, issued at 136.70p each                    | 63,355,339                                      | 633,553   | 85,973,196  | -  | 86,606,749   |
| 1,376,600 ordinary shares of 1p<br>each, issued at 138.13p each                     | 1,376,600                                       | 13,766  | 1,887,732   | -  | 1,901,498  |
| Share issue costs   | -   | -   | (31,798)  | -  | (31,798)   |
| At 30 June 2019   | <u>119,527,591</u>                              | <u>1,195,276</u>                                  | <u>108,679,849</u>                                | <u>39,000,000</u>  | <u>148,875,125</u>                                     |

The shares are listed on the Official List of The International Stock Exchange.

On 21 December 2018, the Company repurchased 3,685,685 ordinary shares of £0.01 each for £5,000,000. The share capital was credited to a capital redemption reserve.

On 31 January 2019, the Company issued 63,355,339 ordinary shares of £0.01 each at a premium of £1.3570 each. These shares were admitted to listing on the International Stock Exchange on 31 January 2019.

On 29 March 2019, the Company issued 1,376,600 ordinary shares of £0.01 each at a premium of £1.3713 each. These shares were admitted to listing on the International Stock Exchange on 29 March 2019.

The capital reduction reserve was brought about by a reduction in the Company's share premium and is distributable to shareholders.



**CLIPSTONE INDUSTRIAL REIT PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**20 Net Asset Value**

The Group's net asset value per ordinary share is 142.67p based on shareholders' funds of £170,524,595 and 119,527,591 ordinary shares in issue at the year end.

No adjustment has been made for any potential performance fee due to the Property Manager (Clipstone Investment Management Limited). If the investment properties were sold at their values at 30 June 2019, there would be a performance fee payable of £2,372,779 (1.99p per share). The net asset value net of the potential performance fee was 140.68p per share at 30 June 2019.

A reconciliation of the net asset value as shown in these financial statement to the net asset value of the Group as published on The International Stock Exchange is shown below:

|  | <b>Net Asset<br/>Value</b> | <b>Net Asset<br/>Value per<br/>Share</b> |
|--|----------------------------|--|
|  | <b>£</b>                   | <b>£</b>                                 |
| Net asset value as shown in these financial statements   | 170,524,594                | 1.4267                                   |
| Fair value adjustment to remove finance lease accounting for<br>long leasehold investment properties | 2,212                      | -  |
| Performance fee provision  | (2,372,779)                | (0.0199)                                 |
| Net asset value as published on the International Stock<br>Exchange as at 30 June 2019               | <u>168,154,027</u>         | <u>1.4068</u>                            |

**21 Capital Commitments**

The Group had no capital commitments outstanding at 30 June 2019 (2018: none).

**22 Related Party Transactions**

The Directors are considered to be related parties. The Directors are engaged under letters of appointment and do not have service contracts with the Company. The Directors are required to retire by rotation and seek re-election at least every three years and their appointments are terminable by the director or the Company giving three months' notice.

Directors' emoluments of £45,885 were paid during the year (2018: £45,957). £nil was payable at 30 June 2019 (2018: £nil).

Toby Dean is a director and shareholder of the Property Manager, Clipstone Investment Management Limited. Clipstone Investment Management Limited charged property management fees of £1,549,961 to the Company during the year (2018: £936,668) of which £534,567 was outstanding at the year end (2018: £246,919).

Toby Dean is a director and shareholder of the Alternative Investment Fund Manager, Clipstone Capital Limited. Clipstone Capital Limited charged fund management fees of £20,000 to the Company during the year (2018: £20,000) of which £5,000 was outstanding at the year end (2018: £5,000).

**23 Financial Risk Management**

Consistent with its objective the Group will hold 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 uses derivative instruments to mitigate interest rate risk.

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.

**23 Financial Risk Management (continued)**

The Board reviews and agrees policies for managing the Group's risk exposure. These policies are summarised below and have remained unchanged for the period under review. These disclosures include, where appropriate, consideration of the Group's investment properties which, whilst not constituting financial instruments as defined by FRS 102, are considered by the Board to be integral to the Group's overall risk exposure.

The following table summarises the Group's financial assets and liabilities into the categories required by FRS 102:

|  | <u>30 June 2019</u> | <u>30 June 2018</u> |
|--|---------------------|---------------------|
|  | £                   | £                   |
| Financial assets that are debt instruments measured at amortised cost      | 4,844,031           | 4,834,938           |
| Financial liabilities measured at fair value through profit or loss        | 62,581              | 144,940             |
| Financial liabilities that are debt instruments measured at amortised cost | 39,216,250          | 49,955,214          |

**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 will 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 Property Manager monitors such reports in order to anticipate and minimise the impact of defaults by occupational tenants.

There were no financial assets which were either past due or considered impaired at 30 June 2019 (2018: none).

All the Group's cash is placed with financial institutions with a long-term credit rating of A or better. Bankruptcy or insolvency of such financial institutions may cause the Group's ability to access cash placed on deposit to be delayed or limited. Should the credit quality or the financial position of the banks currently employed significantly deteriorate, 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 UK 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 Alternative Investment Fund Manager and monitored on a quarterly basis by the Board. In order to mitigate liquidity risk the Group aims to have adequate resources (including the expected proceeds of any property sales) to meet its obligations for a period of at least twelve months.

**Interest Rate Risk**

Some of the Company's financial instruments are interest-bearing. As a consequence, the Company will be exposed to interest rate risk due to fluctuations in the prevailing market rate.

Apart from the Group's interest rate cap and interest rate swap, the fair value of financial assets and liabilities is not materially different from their carrying value in the financial statements.

**23 Financial Risk Management (continued)**

**Interest Rate Risk (continued)**

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

The Group uses bank borrowings to help fund its activities which will expose the Group to interest rate risk in future periods. The Group uses derivative instruments to mitigate this interest rate risk.

**Market Risk**

The management of market 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.

**24 Operating leases**

|  | <u>30 June 2019</u> | <u>30 June 2018</u> |
|--|---------------------|---------------------|
|  | £                   | £                   |
| Future minimum lease payments receivable under non-cancellable operating leases: |                     |                     |
| within one year  | 10,351,090          | 6,119,864           |
| in more than one year and less than five years                                   | 21,216,404          | 19,583,319          |
| in more than five years  | 10,305,302          | 12,547,393          |
|  | <u>41,872,796</u>   | <u>38,250,576</u>   |

**25 Post Balance Sheet Events**

An interim dividend of 1.50 pence per share was declared on 30 July 2019 and paid on 22 August 2019.

On 4 July 2019 the Group completed the acquisition of an investment property in Swanley for £10.86m plus associated purchase costs.

On 27 September 2019 the Group completed the purchase of an investment property in Enfield for £5.12 million plus associated purchase costs.

