

CLIPSTONE INDUSTRIAL REIT PLC

ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

Registered number 09046897

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

Directors	Nicholas Lyons (Chairman) Karl Sternberg Toby Dean Richard Demarchi
Registered Office	45 Albemarle Street London W1S 4JL
AIFM	Clipstone Capital Limited 45 Albemarle Street London W1S 4JL
Property Manager and Company Secretary	Clipstone Investment Management Limited 45 Albemarle Street London W1S 4JL
Sponsor for The International Stock Exchange Limited	Carey Olsen Corporate Finance Limited 47 Esplanade St Helier Jersey JE1 0BD
Depository	Langham Hall UK Depository LLP 8th Floor 1 Fleet Place London EC4M 7RA
Independent Auditor	Moore Kingston Smith LLP Devonshire House, 60 Goswell Road London EC1M 7AD
Property Valuer	Colliers International Valuation UK LLP 50 George Street London W1U 7GA
Legal Advisors to the Company (English Law)	Hogan Lovells International LLP Atlantic House Holborn Viaduct London EC1A 2FG
Legal Advisors to the Company (Jersey Law)	Carey Olsen 47 Esplanade St Helier Jersey JE1 0BD
Market Maker	Ravenscroft Limited PO Box 222 The Market Buildings Fountain Street St Peter Port Guernsey GY1 4JG

CLIPSTONE INDUSTRIAL REIT PLC
STRATEGIC REPORT
CHAIRMAN'S STATEMENT

During the past 12 months the Company continued to grow its property portfolio and increase the value of its properties through active asset management. We acquired two new properties, both located inside the M25, increasing exposure to the Greater London area in line with our investment strategy.

On 11 March 2020, the World Health Organisation (WHO) declared the novel coronavirus (COVID-19) a global pandemic, leading to the UK government declaring a state of lockdown and a cessation of all but essential activity from 23 March 2020.

While the government announced various measures to help companies access finance, subsidise wages of furloughed staff and delay tax payments, many businesses have struggled to manage their cash flows and many will continue to do so while this crisis continues.

For commercial property investors, the impact on owners of properties in the leisure, hospitality and high street retail sectors has been the greatest, with many tenants unable or unwilling to pay rent. The industrial sector has fared better but has not been immune as tenants have suffered cancelled contracts, collapses in demand, issues with supplies and difficulties in operating safely.

The Board set out a plan before the rent quarter day on 25 March 2020 that we would deal with tenants on a case-by-case basis and look for constructive solutions with those who were struggling to make rental payments and who kept an open and pragmatic dialogue with the Company and its agents. We have directed all tenants to seek available government-backed support as a first port of call, which many continue to do.

As at the date of this report over 96% of the rent demanded in March has been collected and for the rent demanded in June 2020, over 93% of the rent has been collected. We expect to be able to recover the majority of the remaining unpaid rents following negotiations with tenants to spread repayments over the coming months.

The Board is satisfied with the rate of rent collection despite the current crisis but is mindful that the pandemic is far from over. Despite the easing of lockdown measures, there remains the very real risk that infection rates could increase once again, requiring further lockdowns. Furthermore, whilst some measures have been eased several restrictions still remain in place, and a significant proportion of the workforce remains furloughed. The economic conditions therefore remain challenging for many businesses, including many of our tenants. It would become more problematic for tenants if there were to be a harsh generalised lockdown, and some may be forced into administration or receivership. Whatever the course of this pandemic we will continue to communicate regularly with our tenants and our agents so that we are aware in advance of tenants who are struggling, and to devise payment plans or rent deferrals where we consider these to be in the best interests of shareholders.

The economic downturn precipitated by COVID-19 has led to a fall in property valuations in most sectors, however industrial has held up well which is reflected in the valuation at 30 June 2020 being broadly in line with those at 31 December 2019. All registered valuers are, for most property sectors, including material uncertainty clauses with their valuation reports due to the extreme difficulty in buying and selling properties at the current time, and due to the high level of uncertainty as to how lasting the effects of the crisis will be. This clause has not been included in the Company's independent property valuation for 30 June 2020, as the evidence so far is that industrial property continues to generate demand from occupiers and investors. As noted above, there is a risk that the phasing out of the Coronavirus Job Retention Scheme from August 2020 and its ending in October 2020 could result in some businesses failing.

At a meeting of the Board on 11 May 2020 it was decided to reduce the dividend from the previous rate of 6.25p per share per annum to 3.00p per share per annum due to the uncertainty faced in collecting the rent and to preserve cash flows. This decision was predicated on what the Board considered to be a sustainable rate for the next year based on the rent collected to date for the March quarter and an assumption that the Company would collect 50%, 60% and 70% of the rents demanded over the following three quarters. As the quarter progressed, thanks in no small part to the hard but tactful work of the Property Manager and our Managing Agent, we have managed to collect over 96% of the rents demanded in March and over 93% of the rents demanded in June. Based on this the Board decided in a meeting on 3 August 2020 to increase the dividend rate going forward to 4.00p per share per annum. This will be reviewed again in light of rents collected in September.

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

While the UK has now left the EU, the country remains in a transition period and is a de facto member of the EU single market and customs union. From the beginning of 2021 the UK will enter into a new relationship with the EU, the terms of which remain highly uncertain. The uncertainty surrounding Brexit and the UK's future relationship with the EU has acted as a break on investment and growth in the UK as many businesses take a "wait and see" approach. However, of more concern for the UK economy has been the huge economic shock caused by the global COVID-19 pandemic. The emergence of COVID-19 and the subsequent lockdown of economic and social life in the UK and around the globe has seen historic falls in economic output. This came against an existing backdrop of deteriorating macroeconomic indicators for the UK, a reduction in inward investment and significant difficulties faced by a number of high street retailers. While the sector for industrial properties has been negatively impacted by the pandemic, it has continued to outperform other real estate sectors, especially in the south-east of England. The imbalance between demand and supply that has driven marked rental growth over the past few years and the evidence from recent lettings and projections for available space, in spite of the economic damage caused by COVID-19, suggest that this trend is likely to continue.

It remains an aim of the board for the Company's loan to value to be between 25% and 35%. Following acquisitions made over the past year and spending on the development at Chessington, the Company's loan to value at 30 June 2020 was 23.5%. We still have £6.75m of undrawn debt as part of our revolving credit facility which will allow us to take advantage of investment opportunities as they are identified by our Alternative Investment Fund Manager.

Despite the significant reduction in debt since 2018, the company had been able to increase its quarterly dividend from a rate of 5p per share per annum to 6.25p per share per annum prior to the emergence of COVID-19. As the situation improves and our tenants are able to pay their rents in full, we will aim to restore the dividend back to its previous level.

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 their hard work in what has been another especially busy and challenging year, but one in which we have still been able to deliver outperformance to our shareholders. I am confident that we are well positioned to recover strongly from the COVID-19 pandemic and will be able to move swiftly when opportunities arise.

I am pleased to report the results of the Group for the year ended 30 June 2020.

Results to 30 June 2020

The Group's properties were independently valued at 30 June 2020 at £230,105,000 (30 June 2019: £205,893,000) a decrease of 0.06% from the portfolio valuation on 31 December 2019. The decrease was due to the impact of COVID-19 on the property market; however, this has been tempered by active asset management of the portfolio and the relatively strong performance of multi-let industrial property in the South-East.

The Group's net asset value (NAV) per share at 30 June 2020 was £1.4669 (30 June 2019: £1.4267). 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 2020, there would be a performance fee payable of £2,340,723 (30 June 2019: £2,372,779). The NAV net of the potential performance fee would have been £1.4473 per share at 30 June 2020 (30 June 2019: £1.4068). The total return since listing, representing both the NAV increase and dividends paid to 30 June 2020, net of the potential performance fee, is 74.6% (30 June 2019: 65.2%).

Events to 30 June 2020

I summarise below the material events that have taken place during the year ended 30 June 2020.

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%.

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

Events to 30 June 2020 (Continued)

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 became vacant before the end of 2019 and 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.

On 9 December 2019 the Company undertook the buy back of 2,587,034 of its own shares from Clipstone Feeder Limited for £300,000. Immediately following the buy back the Company issued 2,308,888 new shares at NAV in exchange for 100% of the shares in Clipstone Feeder Limited. This transaction created goodwill on consolidation of £79,690, which was immediately written off to administrative expenditure. The reason for undertaking this transaction was to simplify the administration of the REIT and to improve the liquidity of the REIT shares held in Clipstone Feeder Limited. The overall impact on NAV per share was nil.

Interim dividends totalling 5.3750 pence per share were paid during the year comprising dividends of 1.5000 pence per share paid on 22 August 2019, 1.5625 pence per share on 21 November 2019, 1.5625 pence per share on 26 February 2020 and 0.7500 pence per share on 28 May 2020.

Management Fees

The Board has agreed with the Property Manager that the 1.25% annual management fee will be subject to a sliding scale, so that the fee is charged at a rate of 1.25% of NAV per annum up to NAV of £225m and 1.00% for amounts over £225m. This will lead to further economies of scale and therefore enhanced returns for investors as the fund grows.

Environmental, Social and Governance

The Company operates an Environmental, Social and Governance (ESG) policy that includes monitoring the operations of the Company's tenants to ensure that the use of our buildings is socially and environmentally responsible. It also conducts a quarterly analysis of the environmental impact of the Company's properties, with a view to reducing the carbon footprint impact of the Company's operations over time. The Company will commence reporting against its ESG goals in the 2021 annual report.

Post Balance Sheet Events

An interim dividend of 1.00 pence per share was declared on 30 July 2020 and paid on 26 August 2020.

On 14 September 2020, a fire broke out at our estate at Optima Park in Crayford. Fortunately, no one was injured, however one unit was destroyed and a further two units seriously damaged. The Property Manager is in dialogue with the Company's insurers and the buildings are covered for full replacement costs and loss of rent. The tenants have been offered temporary accommodation elsewhere on the estate whilst their units are rebuilt and refurbished. The Directors anticipate that there should be no material financial impact on the fund as adequate insurance cover is in place.



Nicholas Lyons

Chairman

1 October 2020

CLIPSTONE INDUSTRIAL REIT PLC

STRATEGIC REPORT

The Directors present their Strategic Report on the Company for the year to 30 June 2020.

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 Company") entered the REIT regime with effect from 17 December 2014.

Investment Objective

The Company'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.tiseCompany.com/>).

The Company 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 Company and the AIFM, such as identifying, evaluating and negotiating investment opportunities in property for the Company, 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 Company up to a value of £250m and 1% of the net asset value in excess of £250m, 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 7.00 pence per share. In November 2019 the Company increased its dividend rate from 6.00 pence per share to 6.25 pence per share per annum, however following the emergence of COVID-19 and the subsequent lockdown and economic shock, the Board decided to reduce the dividend rate in May 2020 to 3.00 pence per share per annum with the intention of maintaining that rate over the coming quarters as the economy recovers. Following better than anticipated rent collection up to the end of July 2020, the Board decided to increase the dividend payment to 4.00 pence per share per annum.

Key Performance Indicators

The Directors consider that the Company's net asset value is a more appropriate indicator of the performance of a property investment Company than earnings per share. The calculation of the net asset value is given in Note 20 on page 35.

The Company's net asset value (NAV) less potential performance fee per share at 30 June 2020 was £1.4473 (2019: £1.4068), which represents an increase of 47.7% (2019: 43.6%) 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 2020 was 74.6% (2019: 65.2%).

The Company's properties were independently valued at 30 June 2020 at £230.105m (2019: £205.893m), an uplift of 11.2% (2019: 8.2%) over their aggregate acquisition price, excluding acquisition costs.

Outlook

The short-term outlook for the property market, as for the rest of the world, is dominated by COVID-19. While the industrial property market has fared relatively well compared with other sectors, the outlook remains uncertain. The economy has started to open up, however we remain mindful that an increase in rate of transmission of the coronavirus could lead to further restrictions being placed on people and businesses. Any such restrictions may prevent our tenants from operating, and therefore impact on their ability to pay their rent. It is unclear how much further assistance the government will provide businesses to cope with any future lockdowns or restrictions, if any. The Coronavirus Job Retention Scheme is due to end in October 2020 and this alone may create liquidity issues for businesses. Combined with new lockdowns this could see many more businesses struggle to meet their liabilities and even collapse.

The potential impact for the Company is likely to be around collecting rents and securing new tenants for vacant units. We will continue to manage the portfolio on a tenant by tenant basis and taking an active stance in dealing with any tenants experiencing difficulty. We will look to employ positive asset management initiatives to help tenants while preserving the value of our properties and ensuring as much rent is collected as is possible.

The property market continues to be subdued by uncertainty around Brexit. Despite the UK having left the EU in January 2020, there was still a "wait and see" approach in the market, prior to the COVID-19 lockdown on 23 March 2020. This has perhaps been best demonstrated by the broadly flat net flows experienced by retail property funds since the beginning of 2017. 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. This has been brought into even sharper relief by COVID-19. The malaise in high street retail prior to COVID-19 was in no small part due to changing trends with consumers moving increasingly to shopping online, and the costs of selling via traditional bricks and mortar continuing to increase. The trend towards online shopping has been accelerated by COVID-19 and we believe that it is likely more people will continue to shop online even if restrictions around COVID-19 are lifted completely. The combination of COVID-19, years of anaemic economic growth in the UK and the potential for further economic shocks caused by Brexit or global economic events provides considerable uncertainty in the short term economic outlook, and the potential for an extended period of depressed economic activity. The Company has worked over the past two years to position its portfolio to withstand economic shocks by increasing diversity, reducing loan-to-value and improving liquidity. We have also ensured that the portfolio is invested in good quality buildings, in good locations and with strong underlying fundamentals around the supply of and demand for space in the specific market. This has helped the Company to cope with the COVID-19 pandemic, will help it to withstand future shocks and take advantage of any opportunities which arise.

Despite COVID-19, and issues in the wider property market thanks to Brexit and the woes of traditional retailers, the investment market for industrial property has held up well and we are still seeing deals complete at low yields. Yields for both prime and secondary industrial real estate are in line with this time last year with demand from occupiers sustained, in both the multi-let and the logistics sectors.

The industrial sector outperformed other sectors once again in 2019/20 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 issues created by the pandemic and from any turbulence that may hit the market once the UK's transition period with the EU ends at the end of 2020.

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, particularly as interest rates have hit historic lows in response to the COVID-19 pandemic. 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 Company fails or ceases to maintain its REIT status as the Company 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 Company 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 Company where the value of the Company'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 Company. In addition, in the event that the rental income of the Company's portfolio falls for whatever reason, the use of borrowings will increase the impact of such a fall on the net revenue of the Company and accordingly will have an adverse effect on the Company's ability to pay dividends to Shareholders.

The use of borrowings by the Company 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 Company may be required to realise investments to fund the repayment of the Company's borrowings at a time when the value of such investments is depressed because of adverse market conditions. The Company carefully selects properties for acquisition to maintain value.

The Company's interest rate hedging in the form of an interest rate cap expired in February 2020. The Board made the decision not to take out further interest rate hedging as the current facility expires within two years and the Board considers that the likelihood of interest rates increasing significantly during that period is remote and the cost of a cap would not represent value for money for shareholders. The Board will continue to monitor the market and sentiment over future interest rates and will consider entering into a new interest rate cap should it be considered to be in the best interest of shareholders.

Future compliance with the Company's banking covenants depends on a number of factors including general financial conditions, which cannot be predicted. If real estate assets owned by the Company (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 Company 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.

COVID-19 has seen the credit market become more challenging with higher margins and lenders taking a more cautious approach. The Company's existing facilities run until April 2022, with options to extend to April 2024, and there is currently £6.75m of available liquidity which the Company can draw down upon. We will continue to monitor the credit market and liaise with our lender to ensure that we can secure further finance as and when the Board considers it appropriate well in advance of the current facility's maturity.

There is a risk that come April 2022 the current lender will either offer less attractive terms or decline to offer to renew the facility. We are in regular contact with the Company's lender and discuss their attitude towards risk and our portfolio. We are confident that by maintaining a diverse portfolio of good quality industrial properties in good locations, and keeping loan to value within our target range, the Company will represent an attractive prospect to lenders and be considered relatively low risk. We will also aim to use an approaching expiry of our loan facilities as an opportunity to negotiate the best possible terms on the market with a range of lenders.

Conditions affecting the UK property market

The Company's performance will be affected by, amongst other things, general conditions affecting the UK property market, as a whole or specific to the Company'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 Company'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 Company'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 Company is able to dispose of its assets, or if the Company suffers a material decrease in property rental income, or if the Company suffers a material increase in its operating costs, this may have a material adverse effect on the Company's business and results of operations. The Company 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 COVID-19

The implications of COVID-19 for the Company have been discussed extensively in this report. The principal risks to the Company are around tenant failure and the recoverability of tenant arrears. If there are further lockdowns or tighter restrictions on people and businesses imposed by the government there is a risk that the Company will suffer a material decrease in property rental income and an increase in vacancy rate, and that these vacant units will be more difficult to re-let. This may have a significant adverse effect on the Company's business and results of operations.

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

The UK exited the European Union (EU) on 31 January 2020, however it remains within a transition period until the end of 2020. 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 pending the conclusion of talks between the UK and the EU.

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 future relationship with the EU and on how this will impact their trade and the UK economy in general. Since the last annual report the UK has left the EU and we have a new government with a significant majority in the house of commons, yet it remains unclear what the future relationship with the EU will be, and thus the risks associated with Brexit are largely unchanged from 12 months ago. The Company'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 that the Company'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 Company'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 and the UK has left the EU, there is scant comfort that this legislation will not be amended or replaced after the end of the current transition period. 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 Company 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 Company 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 Company and/or the level of dividend cover. The Company 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 Company acquires and thereby have a material adverse effect on the Company'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 Company 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 Company 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 Company'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.

Risks relating to Environmental, Social and Governance (ESG)

The Company's stakeholders expect us to comply with responsible business practices and to ensure that we operate an effective policy on the environmental and social impacts of our properties and the governance of the company. Failing to adhere to best practices could lead to reputational damage, reduced returns for shareholders, negative impact on asset liquidity, reduced access to debt and capital markets and a breakdown in relationships with stakeholders.

Risks relating to Environmental, Social and Governance (ESG) (Continued)

The Board receives reports on ESG matters at every quarterly meeting from the Property Manager. The staff of the Property Manager receive training in ESG matters, and monitor changes in law, stakeholder sentiment and best practice in relation to responsible business, seeking advice where needed from specialist consultants. We monitor EPC ratings against a benchmark to ensure compliance with current and future Minimum Energy Efficiency Standards (“MEES”) that could otherwise impact on the quality and desirability of our buildings leading to increased void rates, lost income and reduced liquidity. We consider the risks posed by climate change for our properties and plan accordingly, working with occupiers where possible to improve the energy efficiency of our assets. We consider the usage of our buildings and how this will impact on the local area and society. We receive quarterly reports from the Property Manager against a list of “undesirable” uses. We also look to provide properties which are attractive to business and which will support local employment. We are in the process of developing sustainability targets and will report on these from 2021.

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



Toby Dean

Director

1 October 2020

CLIPSTONE INDUSTRIAL REIT PLC

DIRECTORS' REPORT

The Directors present their Report and Financial Statements of the Company for the year to 30 June 2020.

Results and dividends

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

Interim dividends totalling 5.3750 pence per share were paid during the year comprising dividends of 1.5000 pence per share paid on 22 August 2019, 1.5625 pence per share on 21 November 2019, 1.5625 pence per share on 26 February 2020 and 0.7500 pence per share on 28 May 2020. A further interim dividend of 1.0000 pence per share was paid on 26 August 2020.

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 2020</u>	<u>30 June 2019</u>
Nicholas Stephen Lyons	236,925	236,925
Karl Stephen Sternberg	396,182	396,182
Toby John Grenville Dean	11,846,931	11,820,197
Richard Robert Dury Demarchi	-	-

Post Balance Sheet Events

Details of post balance sheet events are given in the Chairman's Report on page 4.

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 6.

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)

Auditor

The Independent Auditor's Report can be found on page 15. 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 on 3 November 2020.

By order of the Board



Clipstone Investment Management Limited
Secretary

Date: 1 October 2020

CLIPSTONE INDUSTRIAL REIT PLC
STATEMENT OF DIRECTORS' RESPONSIBILITIES

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.

STATEMENT BY THE DIRECTORS IN PERFORMANCE OF THEIR STATUTORY DUTIES IN ACCORDANCE WITH s172(1) COMPANIES ACT 2006

The board of directors of Clipstone Industrial REIT plc consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole (having regard to the stakeholders and matters set out in s172(1)(a-f) of the Act) in the decisions taken during the year ended 30 June 2020. In particular, by reference to the Strategic Report on page 5.

The directors of Clipstone Industrial REIT plc – and those of all UK companies – must act in accordance with a set of general duties. These duties are detailed in the UK's Companies Act and include a duty to promote the success of the Company, which is summarised below. As part of their induction, the directors are briefed on their duties and they can access professional advice on these – either through the Company or, if they judge it necessary, from an independent provider.

Typically, in Alternative Investment Funds such as Clipstone Industrial REIT plc, the directors fulfil their duties partly through a governance framework that delegates day-to-day decision-making to an Alternative Investment Fund Manager and a Property Manager. The Alternative Investment Fund Manager is Clipstone Capital Limited and the Property Manager is Clipstone Investment Management Limited.

The Board recognises that such delegation needs to be much more than simple financial authorities and, in this section of the report, we have summarised our governance structure, which covers: the values and behaviours expected of our employees; the standards they must adhere to; how we engage with stakeholders; and how the Board looks to ensure that we have a robust system of control and assurance processes.

CLIPSTONE INDUSTRIAL REIT PLC
STATEMENT OF DIRECTORS' RESPONSIBILITIES (CONTINUED)

Section 172 of the UK's Companies Act

In summary, as required by Section 172 of the UK's Companies Act, a director of a company must act in the way (s)he considers, in good faith, would most likely promote the success of the company for the benefit of its shareholders. In doing this, the director must have regard, amongst other matters, to the:

- likely consequences of any decisions in the long term;
- interests of the company's employees;
- need to foster the company's business relationships with suppliers, customers and others;
- impact of the company's operations on the community and environment;
- company's reputation for high standards of business conduct; and
- need to act fairly as between members of the company.

Stakeholders

A board should communicate effectively with its shareholders and understand their views, and also act fairly as between different members. Fostering business relationships with key stakeholders, such as customers – in our case our tenants - and suppliers, is also important to a company's success. A board should have visibility of these relationships so that it is able to take stakeholder considerations into account when making decisions. In their decision-making, directors need to have regard to the impact of a company's operations on the community and environment.

Overview of how the Board performed its duties

Shareholders

The Board receives regular updates from the Alternative Investment Fund Manager (AIFM) of the Company on feedback received from investors. The AIFM sends out quarterly updates to all shareholders and has regular conversations with individual shareholders. The feedback received has been positive and the AIFM will continue to engage actively with all of our shareholders.

Employees

The company does not have any employees other than the directors.

Tenants

The Property Manager closely monitors the relationship with all our tenants, whether that be directly, via our managing agents or other third-party asset managers. At all scheduled Board meetings, the Property Manager briefs the Board on our performance in delivering on our commitments to tenants and the quality of these critical relationships. Providing safe, well-maintained, and functional properties to our tenants is key in retaining and attracting tenants, as well as being responsive and reasonable with any queries or requests tenants have.

Suppliers

The Board recognises that our key supplier relationships are with our managing agent and Property Manager. The Board meets regularly with the Property Manager to receive updates on the performance of the property portfolio and to discuss future plans for our assets.

Community and environment

The Board recognises the importance of leading a company that not only generates value for shareholders but also contributes to wider society.

As a real estate investment company, we recognise that environmental and climate risks could impact us directly, and we are committed to reducing the environmental impact of our operations and buildings and minimising our environmental footprint. The Board has mandated that our businesses implement the requirements of our Responsible Property Investment Policy, which details our commitment to high standards of environmental management.

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

Opinion

We have audited the financial statements of Clipstone Industrial REIT Plc ('the parent company') and its subsidiaries for the year ended 30 June 2020 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 2020 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 INDUSTRIAL REIT PLC (Continued)

Key audit matter and description	Audit Approach
<p>Valuation of investment properties</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 enlist the services of an independent valuer to assist in this regard.</p>	<ul style="list-style-type: none"> - We assessed the Group's external property valuer's objectivity, professional qualifications and resources to complete this service. - 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. - 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. - We reviewed the information provided by the Group to the external property valuer and verified these to supporting documentation. - We considered the adequacy of the Company's disclosures about the degree of estimation and sensitivity to key assumptions made when valuing properties.

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 £1,227,692, based upon 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 £613,846.

We agreed to report to the directors all audit differences in excess of £61,385, 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.

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

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.

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 INDUSTRIAL 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

1 October 2020

CLIPSTONE INDUSTRIAL REIT PLC
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2020

	Notes	Year ended 30 June 2020 £	Year ended 30 June 2019 £
Turnover - Rental income		<u>12,487,476</u>	<u>8,974,016</u>
Cost of sales			
- Direct property expenses		(1,009,962)	(651,305)
- Property management expenses		<u>(2,184,510)</u>	<u>(1,549,961)</u>
		<u>(3,194,472)</u>	<u>(2,201,266)</u>
Gross profit		<u>9,293,004</u>	<u>6,772,750</u>
Other operating income		20,000	1,500
Administrative expenses		(497,039)	(635,942)
Gain on disposal of investment properties	7	-	2,077,290
Value adjustments			
- Fair value of investment properties	13	4,192,934	4,197,651
- Value of incentives on investment properties	13	(320,989)	1,647,175
- Derivative financial instruments		62,581	302,329
		<u>3,457,487</u>	<u>7,590,003</u>
Operating profit	4	12,750,491	14,362,753
Interest receivable		4,185	47,786
Interest payable	8	(1,650,799)	(2,163,046)
Profit on ordinary activities before tax		<u>11,103,877</u>	<u>12,247,493</u>
Corporation tax	9	(6,894)	(26,485)
Total comprehensive income for the financial year		<u>11,096,983</u>	<u>12,221,008</u>
Earnings per ordinary share			
Basic and diluted (pence per share)	11	<u>9.3</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 2020

	Notes	<u>30 June 2020</u> £	<u>30 June 2019</u> £
Fixed assets			
Intangible fixed assets	12	-	-
Investment properties	13	<u>230,088,567</u>	<u>206,198,351</u>
		230,088,567	206,198,351
Current assets			
Debtors	15	<u>4,375,766</u>	<u>4,682,095</u>
Cash at bank and in hand		<u>2,297,332</u>	<u>1,814,262</u>
		6,673,098	6,496,357
Creditors: amounts falling due within one year	16	<u>(6,557,044)</u>	<u>(4,944,064)</u>
Net current assets		<u>116,054</u>	<u>1,552,293</u>
Total assets less current liabilities		230,204,621	207,750,644
Creditors: amounts falling due after more than one year	17	<u>(55,275,892)</u>	<u>(37,226,050)</u>
Net assets		<u><u>174,928,729</u></u>	<u><u>170,524,594</u></u>
Capital and reserves			
Called up share capital	19	<u>1,192,494</u>	<u>1,195,276</u>
Share premium account	19	<u>108,679,849</u>	<u>108,679,849</u>
Capital reduction reserve	19	<u>39,000,000</u>	<u>39,000,000</u>
Capital redemption reserve		<u>62,727</u>	<u>36,856</u>
Investment revaluation reserve		<u>17,355,774</u>	<u>13,483,829</u>
Profit and loss account		<u>8,637,885</u>	<u>8,128,784</u>
Shareholders' funds		<u><u>174,928,729</u></u>	<u><u>170,524,594</u></u>
Net asset value per ordinary share (pence)	20	<u><u>147</u></u>	<u><u>135</u></u>

The Company's profit for the year was £5,698,657 (2019: £14,942,665).

These financial statements were approved and authorised for issue by the board on 1 October 2020 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 2020

	Notes	<u>30 June 2020</u> £	<u>30 June 2019</u> £
Fixed assets			
Investment in subsidiary undertakings	14	148,986,476	138,168,146
Current assets			
Debtors	15	7,953,488	20,333,012
Cash at bank and in hand		1,174,751	218,557
		<u>9,128,239</u>	<u>20,551,569</u>
Creditors: amounts falling due within one year	16	(1,350,376)	(961,185)
Net current assets		<u>7,777,863</u>	<u>19,590,384</u>
Total assets less current liabilities		156,764,339	157,758,530
Creditors: amounts falling due after more than one year	17	-	-
Net assets		<u><u>156,764,339</u></u>	<u><u>157,758,530</u></u>
Capital and reserves			
Called up share capital	19	1,192,494	1,195,276
Share premium account	19	108,679,849	108,679,849
Capital reduction reserve	19	39,000,000	39,000,000
Capital redemption reserve		62,727	36,856
Profit and loss account		7,829,269	8,846,549
Shareholders' funds		<u><u>156,764,339</u></u>	<u><u>157,758,530</u></u>

These financial statements were approved and authorised for issue by the board on 1 October 2020 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 2020

	<u>Share Capital</u> £	<u>Share Premium</u> £	<u>Capital Reduction Reserve</u> £	<u>Capital Redemption Reserve</u> £	<u>Revaluation Reserve</u> £	<u>Retained Earnings</u> £	<u>Total</u> £
Balance at 1 July 2018	584,813	20,850,719	39,000,000	-	16,125,468	2,206,031	78,767,031
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 loss 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)
Balance at 30 June 2019	1,195,276	108,679,849	39,000,000	36,856	13,483,829	8,128,784	170,524,594
Shares issued in the year	23,089	-	-	-	-	-	23,089
Share issue costs	-	-	-	-	-	-	-
Shares repurchased	(25,871)	-	-	25,871	-	(300,000)	(300,000)
Profit for the year	-	-	-	-	-	11,096,983	11,096,983
Unrealised gain on revaluation of investment property transferred to revaluation reserve	-	-	-	-	4,192,934	(4,192,934)	-
Lease incentive valuation adjustment transferred to revaluation reserve	-	-	-	-	(320,989)	320,989	-
Dividends paid (see note 10)	-	-	-	-	-	(6,415,937)	(6,415,937)
Balance at 30 June 2020	1,192,494	108,679,849	39,000,000	62,727	17,355,774	8,637,885	174,928,729

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 2020

	<u>Share Capital</u> £	<u>Share Premium</u> £	<u>Capital Reduction Reserve</u> £	<u>Capital Redemption Reserve</u> £	<u>Retained Earnings</u> £	<u>Total</u> £
Balance at 1 July 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)
Balance at 30 June 2019	1,195,276	108,679,849	39,000,000	36,856	8,846,549	157,758,530
Shares issued in the year	23,089	-	-	-	-	23,089
Share issue costs	-	-	-	-	-	-
Shares repurchased	(25,871)	-	-	25,871	(300,000)	(300,000)
Profit for the year	-	-	-	-	5,698,657	5,698,657
Dividends paid (see note 10)	-	-	-	-	(6,415,937)	(6,415,937)
Balance at 30 June 2020	1,192,494	108,679,849	39,000,000	62,727	7,829,269	156,764,339

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 2020

	<u>Year ended</u> <u>30 June 2020</u> £	<u>Year ended</u> <u>30 June 2019</u> £
Cash flows from operating activities		
Profit for the financial year	11,096,983	12,221,008
Adjustments for:		
Gain on disposal of investment properties	-	(2,077,290)
Unrealised revaluation of investment properties	(4,192,934)	(4,197,651)
Movement in lease incentive valuation	320,989	(1,647,175)
Unrealised value adjustment of derivative financial instruments	(62,581)	(302,329)
Impairment of goodwill	89,302	83,537
Interest payable	1,650,799	2,163,046
Interest receivable	(4,185)	(47,786)
Corporation tax	6,894	26,485
Change in debtors and accrued income	306,329	(1,027,283)
Change in creditors and accruals	999,596	(7,231,111)
Cash from operations	<u>10,211,192</u>	<u>(2,036,549)</u>
Interest paid	(1,460,584)	(2,202,282)
Interest received	4,185	47,786
Corporation tax paid	(341,620)	(26,485)
Net cash from operating activities	<u>8,413,173</u>	<u>(4,217,530)</u>
Cash flows from investing activities		
Acquisition of subsidiaries net of cash	28,808	865,817
Purchase of investment property	(19,416,682)	(4,632,646)
Disposal of investment properties	-	84,204,116
Net cash from investing activities	<u>(19,387,874)</u>	<u>80,437,287</u>
Cash flows from financing activities		
Proceeds from issue of ordinary shares (net of issue costs)	-	1,869,700
Repurchase of Company shares	(59,319)	(5,000,000)
Proceeds from loan financing	18,050,000	36,000,000
Loan repayments	-	(104,955,271)
Repayments under finance leases	(116,973)	(58,292)
Dividends paid	(6,415,937)	(4,913,247)
Net cash from financing activities	<u>11,457,771</u>	<u>(77,057,110)</u>
Net increase/(decrease) in cash and cash equivalents	<u>483,070</u>	<u>(837,353)</u>
Cash and cash equivalents at the beginning of the year	1,814,262	2,651,615
Cash and cash equivalents at the end of the year	<u><u>2,297,332</u></u>	<u><u>1,814,262</u></u>
Components of cash and cash equivalents		
Cash	2,297,332	1,814,262
	<u><u>2,297,332</u></u>	<u><u>1,814,262</u></u>

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

CLIPSTONE INDUSTRIAL REIT PLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 £5,698,657 (2019: £14,942,665).

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.

While the restrictions on activity and the accompanying economic shock in response to COVID-19 has caused a number of businesses across the UK to experience significant difficulties, to date the Company has coped reasonably well. Rent collection has been robust in the circumstances and we continue to see activity in the occupational and investment market for industrial property. The Directors are confident that the Company is well positioned to continue as a going concern for at least the next 12 months, even if the situation surrounding COVID-19 deteriorates, and is well positioned to recover strongly and take advantage of any opportunities as the outlook improves.

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 recognised as a liability when they have been approved and declared.

(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.

Amounts collected by managing agents and held in cash by managing agents in accounts controlled by the managing agent on behalf of the Company are included within other debtors.

(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, from time to time, 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:

	<u>Year ended</u> <u>30 June 2020</u>	<u>Year ended</u> <u>30 June 2019</u>
	£	£
Fees payable to the Company’s auditor for:		
- audit of the Company’s annual accounts	37,500	37,500
- audit of the Company’s subsidiaries’ annual accounts	15,000	15,000
- Group tax compliance services	25,270	15,188
	<u> </u>	<u> </u>

5 Particulars of Employees

The Group had no employees during the year (2019 - nil), other than the directors.

6 Directors’ Emoluments

	<u>Year ended</u> <u>30 June 2020</u>	<u>Year ended</u> <u>30 June 2019</u>
	£	£
Directors’ emoluments for the Group	<u>45,828</u>	<u>45,885</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

	Year ended 30 June 2020	Year ended 30 June 2019
	£	£
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>-</u>	<u>2,077,290</u>

On 21 December 2018 the Group sold five distribution warehouse properties for £84,687,476, realising a profit since acquisition of £10,563,755.

8 Interest Payable

	Year ended 30 June 2020	Year ended 30 June 2019
	£	£
Bank loan interest payable	1,217,795	1,369,065
Bank loan issue costs	316,175	736,178
Interest payable on finance leases	116,829	57,803
	<u>1,650,799</u>	<u>2,163,046</u>

9 Corporation Tax

	Year ended 30 June 2020	Year ended 30 June 2019
	£	£
Current tax:		
UK corporation tax on profits for the year	-	-
Adjustment in respect of prior years	-	26,485
Adjustment to provision for tax payable by Clipstone Feeder Limited post-acquisition	6,894	-
	<u>6,894</u>	<u>26,485</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:

	Year ended 30 June 2020	Year ended 30 June 2019
	£	£
Profit before tax	<u>11,103,877</u>	<u>12,247,493</u>
Corporation tax at effective rate of 19.00% (2019: 19.00%)	2,109,737	2,327,024
Effect of:		
REIT tax exempt property rental profits and gains	(2,109,737)	(2,327,024)
Adjustment in relation to prior years	-	26,485
Adjustment to provision for tax payable by Clipstone Feeder Limited post-acquisition	6,894	-
	<u>6,894</u>	<u>26,485</u>
Effective corporation tax rate	<u>0.1%</u>	<u>0.2%</u>

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

10 Dividends

	Year ended <u>30 June 2020</u> £	Year ended <u>30 June 2019</u> £
Interim dividends paid of 5.375p (2019 - 5.250p) per ordinary share	<u>6,415,937</u>	<u>3,939,894</u>

An interim dividend of 1.00 pence per share was declared on 7 August 2020 and paid on 26 August 2020.

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.

	Year ended <u>30 June 2020</u> £	Year ended <u>30 June 2019</u> £
Net profit attributable to ordinary shares	<u>11,096,983</u>	<u>12,221,008</u>
Weighted average number of ordinary shares:		
Issued ordinary shares at the start of the year	119,527,591	58,481,337
Effect of shares issued during the year	1,290,447	26,459,683
Effect of shares bought back during the year	(1,445,904)	(1,933,972)
Basic and diluted weighted average number of shares	<u>119,372,134</u>	<u>83,007,048</u>
Basic and diluted earnings per share (pence)	<u>9.3</u>	<u>14.7</u>

12 Goodwill

	<u>30 June 2020</u> <u>Total</u> £	<u>30 June 2019</u> <u>Total</u> £
Consideration and purchase costs of subsidiaries	82,904	86,606,748
Net liabilities/(assets) of subsidiaries at acquisition	6,398	(86,523,210)
Goodwill arising on acquisition	<u>89,302</u>	<u>83,538</u>
Impairment	(89,302)	(83,538)
Goodwill carried forward	<u>-</u>	<u>-</u>

On 9 December 2019 the Company acquired 100% of the shares in Clipstone Feeder Limited in exchange for the issue of 2,308,888 shares in the Company at £1.4274. Applying merger relief accounting these shares were accounted for at nominal value, being £23,089, this being the consideration for the shares in Clipstone Feeder Limited. In addition costs of £59,815 were incurred. This resulted in goodwill on acquisition which was impaired to £nil as the Feeder became dormant and has been placed into liquidation.

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.

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

13 Investment Properties

	<u>30 June 2020</u>	<u>30 June 2020</u>	<u>30 June 2020</u>	<u>30 June 2019</u>
	<u>Freehold</u>	<u>Leasehold</u>	<u>Total</u>	<u>Total</u>
	£	£	£	£
Cost				
Brought forward	184,239,378	7,828,007	192,067,385	109,152,274
Acquired with subsidiaries	-	-	-	149,800,000
Additions	19,748,431	269,840	20,018,271	4,675,146
Disposals	-	-	-	(71,560,035)
Carried forward	<u>203,987,809</u>	<u>8,097,847</u>	<u>212,085,656</u>	<u>192,067,385</u>
Revaluation				
Brought forward	13,818,622	6,993	13,825,615	18,111,726
Revaluation during the year	4,298,569	(104,840)	4,193,729	4,200,354
Revaluation reversed on disposals	-	-	-	(8,486,465)
Carried forward	<u>18,117,191</u>	<u>(97,847)</u>	<u>18,019,344</u>	<u>13,825,615</u>
Value per independent valuer	<u>222,105,000</u>	<u>8,000,000</u>	<u>230,105,000</u>	<u>205,893,000</u>
Deferred lease incentives (note 15)				
Brought forward	(899,024)	(19,606)	(918,630)	(1,986,258)
Movement during the year	(293,053)	(27,936)	(320,989)	(433,151)
Acquired with subsidiaries	-	-	-	(579,547)
Reversed on disposals	-	-	-	2,080,326
Carried forward	<u>(1,192,077)</u>	<u>(47,542)</u>	<u>(1,239,619)</u>	<u>(918,630)</u>
Long leasehold valuations				
Brought forward	-	1,223,981	1,223,981	-
Acquired with subsidiaries	-	-	-	1,226,684
Revaluation during the year	-	(795)	(795)	(2,703)
Carried forward	<u>-</u>	<u>1,223,186</u>	<u>1,223,186</u>	<u>1,223,981</u>
Carrying value	<u>220,912,923</u>	<u>9,175,644</u>	<u>230,088,567</u>	<u>206,198,351</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 2020 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 2020</u>	<u>30 June 2019</u>
	£	£
Cost		
Brought forward	138,168,146	24,904,161
Additions	19,127,089	274,038,796
Disposals	(8,308,759)	(160,774,811)
Carried forward	<u>148,986,476</u>	<u>138,168,146</u>

On 9 December 2019 the Group acquired all of the share capital in Clipstone Feeder Limited in exchange for new shares issued in the Company for £1.4274 each. Applying merger relief account to this transaction, these shares were accounted for at nominal value, being £23,089. In addition to this, the Company applied for further shares in Clipstone Feeder Limited for £19,185, and incurred costs on acquisition of £59,815 which have been capitalised.

During the year the Company acquired a further 19,025,000 shares in Clipstone Ten Limited at £1 each.

On 31 January 2019, 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 Meir Park Limited, Clipstone 7 Limited, Clipstone Interlink Limited and Clipstone Maxx Limited.

	<u>Principal Activity</u>	<u>Date of Acquisition</u>	<u>Country of Incorporation</u>	<u>Ownership %</u>
Direct subsidiaries				
Clipstone Ten Limited	Property Investment	2 June 2014	UK	100%
Clipstone IX Limited	Property Investment	17 Dec 2014	UK	100%
Clipstone Feeder Limited	Dormant	9 Dec 2019	UK	100%

All of the above entities have been included in the consolidated financial statements. The registered addresses of all the above subsidiaries is 45 Albemarle Street, London, W1S 4JL.

15 Debtors

	<u>30 June 2020</u>	<u>30 June 2019</u>
	£	£
Group		
Prepayments and accrued income	513,083	816,487
Trade debtors	1,476,452	835,839
Deferred lease incentives	1,239,619	918,630
Other debtors	1,146,612	2,111,139
	<u>4,375,766</u>	<u>4,682,095</u>
Company		
Prepayments and accrued income	3,488	26,838
Due from group undertakings	7,950,000	20,306,174
	<u>7,953,488</u>	<u>20,333,012</u>

Included within trade debtors are provisions of £209,155 (2019 - £70,215) for doubtful debts.

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 2020</u>	<u>30 June 2019</u>
	£	£
Group		
Finance lease liabilities (see note 18)	158	144
Trade creditors	504,776	227,219
Rental income in advance	2,585,104	2,351,990
Accruals	2,089,799	1,334,534
Withholding taxes and other taxes	918,544	539,293
Bank loans - due within one year	-	-
Derivative financial instruments (see note 17)	-	62,581
Other creditors	458,663	428,303
	<u>6,557,044</u>	<u>4,944,064</u>
Company		
Trade creditors	499,488	19,110
Due to group undertakings	4,838	-
Accruals	716,819	713,285
Withholding taxes and other taxes	129,231	166,209
Derivative financial instruments (see note 17)	-	62,581
	<u>1,350,376</u>	<u>961,185</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 2020</u>	<u>30 June 2019</u>
	£	£
Group		
Bank loans - due between one and two years	-	-
Bank loans - due between two and five years	54,050,000	36,000,000
Finance lease liabilities (see note 18)	1,225,892	1,226,050
	<u>55,275,892</u>	<u>37,226,050</u>
Company		
Bank loans - due between one and two years	-	-
	<u>-</u>	<u>-</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 had entered into interest rate cap contracts to cap interest at 3% on its bank borrowings which expired during the year. At 30 June 2020 the notional amount under the contracts was £nil (2019: £30,853,025). The contracts terminated on 11 February 2020. The premiums were payable by quarterly instalments of £20,915. At 30 June 2020 the cap contracts had a negative fair value of £nil (2019: £62,581).

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

18 Finance Leases	<u>30 June 2020</u>	<u>30 June 2019</u>
	£	£
Included within current liabilities	158	144
Included within non-current liabilities	1,225,892	1,226,050
	<u>1,226,050</u>	<u>1,226,194</u>
Future minimum lease payments due under finance leases:		
within one year	116,973	116,973
in more than one year and less than five years	467,892	467,892
in more than five years	8,603,525	8,691,255
	<u>9,188,390</u>	<u>9,276,120</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

	<u>Number of</u>	<u>Share</u>	<u>Share</u>	<u>Capital</u>	<u>30 June 2020</u>
	<u>Shares</u>	<u>Capital</u>	<u>Premium</u>	<u>Reduction</u>	<u>Total</u>
		£	£	£	£
Issued and fully paid					
At 1 July 2019					
(119,527,591 ordinary shares of £0.01)	119,527,591	1,195,276	108,679,849	39,000,000	148,875,125
Shares repurchased	(2,587,034)	(25,871)	-	-	(25,871)
2,308,888 ordinary shares of 1p each, issued at 142.74p	2,308,888	23,089	-	-	23,089
Share issue costs	-	-	-	-	-
At 30 June 2020	<u>119,249,445</u>	<u>1,192,494</u>	<u>108,679,849</u>	<u>39,000,000</u>	<u>148,872,343</u>

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

On 9 December 2019, the Company repurchased 2,587,034 ordinary shares of £0.01 each for £300,000. The share capital was credited to a capital redemption reserve.

On 9 December 2019, the Company issued 2,308,888 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 9 December 2019.

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

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20 Net Asset Value

The Group's net asset value per ordinary share is 146.69p based on shareholders' funds of £174,928,728 and 119,249,445 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 2020, there would be a performance fee payable of £2,340,723 (1.96p per share). The net asset value net of the potential performance fee was 144.73p per share at 30 June 2020.

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:

	Net Asset Value	Net Asset Value per Share
	£	£
Net asset value as shown in these financial statements	174,928,729	1.4669
Fair value adjustment to remove finance lease accounting for long leasehold investment properties	2,864	-
Performance fee provision	(2,340,723)	(0.0196)
Net asset value as published on the International Stock Exchange as at 30 June 2020	<u>172,590,870</u>	<u>1.4473</u>

21 Capital Commitments

The Group had outstanding capital commitments relating to its development at Chessington at 30 June 2020 (2019: none). During the year the Group entered into a contract to construct a new building at its estate in Chessington. The total contract sum was £2,234,218. £1,770,075 had been invoiced prior to the year end, leaving an outstanding capital commitment of £464,143. The development achieved practical completion on 12 August 2020.

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 £45,828 were paid during the year (2019: £45,885). £nil was payable at 30 June 2020 (2019: £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 £2,184,510 to the Company during the year (2019: £1,549,961) of which £963,843 was outstanding at the year end (2019: £534,567).

Toby Dean is a director and indirect 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 (2019: £20,000) of which £5,000 was outstanding at the year end (2019: £5,000).

During the year the Group was charged £415,416 (2019: £120,385) in insurance premiums by Clipstone Capital Limited. Clipstone Capital Limited is authorised to arrange insurance by the Financial Conduct Authority, and is not the underwriter. All leases with tenants of the Group are on a full repairing and insuring basis and so where a unit is occupied the cost of insurance is recharged in full to the tenant. The Group only incurs the cost of insurance for vacant properties and any insurance relating to developments. During the year the cost of insurance to the Group was £4,556 (2019: £16,132) and a charge of £12,544 (2019: £nil) for insurance relating to the development at Chessington. All transactions were carried out at arm's length.

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.

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 2020</u>	<u>30 June 2019</u>
	£	£
Financial assets that are debt instruments measured at amortised cost	4,683,563	4,844,031
Financial liabilities measured at fair value through profit or loss	-	62,581
Financial liabilities that are debt instruments measured at amortised cost	58,329,288	39,216,250

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 2020 (2019: 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.

23 Financial Risk Management (continued)

Interest Rate Risk (continued)

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.

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 2020</u>	<u>30 June 2019</u>
	£	£
Future minimum lease payments receivable under non-cancellable operating leases:		
within one year	11,486,476	10,351,090
in more than one year and less than five years	27,824,517	21,216,404
in more than five years	8,943,956	10,305,302
	<u>48,254,949</u>	<u>41,872,796</u>

25 Post Balance Sheet Events

An interim dividend of 1.00 pence per share was declared on 7 August 2020 and paid on 26 August 2020.

On 14 September 2020, a fire broke out at our estate at Optima Park in Crayford. Fortunately no one was injured, however one unit was destroyed and a further two units seriously damaged. The Property Manager is in dialogue with the Company's insurers and the buildings are covered for full replacement costs and loss of rent. The tenants have been offered temporary accommodation elsewhere on the estate whilst their units are rebuilt and refurbished. The Directors anticipate that there should be no material financial impact on the fund as adequate insurance cover is in place.