UPDC REAL ESTATE INVESTMENT TRUST

FINANCIAL STATEMENTS
FOR THE 19 MONTHS ENDED 31 DECEMBER 2014

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FINANCIAL STATEMENTS
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Off Awolowo Road, S.W. Ikoyi
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Banker
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Auditor
PricewaterhouseCoopers
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252E Muri Okunola Street
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Lagos
Telephone: (01) 2711700

JOINT TRUSTEES' REPORT

The Trustees present their report on the affairs of the UPDC Real Estate Investment Trust, together with the audited financial statements for the 19 months period ended 31 December, 2014.

Principal activity:

The principal activity of the UPDC Real Estate Investment Trust (the "Fund") is the pooled investment in a diversified portfolio of income-generating real estate in Nigeria with high growth potential in accordance with the Trustee Investments Act, the Investments and Securities Act (2007), the Securities and Exchange Commission's Rules and Regulations and the Trust Deed (the Applicable Regulations).

Results:

The results for the 19 months period ended 31 December 2014 are set out on pages 12 and 13.

Directors:

The Directors of the Fund Manager who served during the period under review were:

Mr. Rilwan Belo-Osagie	(Chairman)
Mrs. Olumayowa Ogunwemimo	(Managing Director)
Mrs. Hamda A. Ambah	(Director)
Mr. Emenike Davies Uduanu	(Director)

The Directors of the Sponsor who served during the period under review were:

Mr. Larry Ettah	(Chairman)
Mr. Hakeem Ogunniran	(Managing Director)
Mrs. Folasade Ogunde	(Director)
Mrs. Halima Alao	(Director)
Mr. Abdul Bello	(Director)
Mr. Adekunle Awojobi	(Director)
Prof. Okon A. Ansa	(Director)

Directors' and related parties interest in the units of the Fund:

The Directors of the Fund Manager and Sponsor with direct beneficial interest in the units of the Fund are detailed below:

Mr. Rilwan Belo-Osagie	1,000,000
Mr. Hakeem Ogunniran	1,000,000
Mrs. Folasade Ogunde	400,000
Mrs. Hamda A. Ambah	50,000
Mrs. Halima Alao	20,000

JOINT TRUSTEES' REPORT

None of the directors of FBN Trustees Limited and UBA Trustees Limited has any direct beneficial interest in the units of the Fund.

Responsibilities of the Fund Manager:

The Investments and Securities Act, 2007 requires the Fund Manager to keep proper books of Account and prepare Annual Financial Statements, which give a true and fair view of the state of affairs of the Real Estate Investment Trust during the period covered by the financial statements.

The Fund Manager was responsible for keeping proper accounting records, which disclose with reasonable accuracy, at any point in time, the financial position of the Fund and enable the Fund Manager to ensure that the Financial Statements comply with the Applicable Regulations.

The Fund Manager is also responsible for maintaining adequate financial resources to meet its commitments and to manage the risks to which the Fund is exposed.

Responsibilities of the Trustees:

The responsibilities of the Trustees as provided by Securities and Exchange Commission's Rules and Regulations made pursuant to the Investments and Securities Act, 2007 are as stated below:

- Monitoring the activities of the Fund Manager and the Custodian on behalf of and in the interest of the Unit Holders;
- Ensuring that the Custodian takes into custody all of the Scheme's assets and holds them in trust for the holders in accordance with the Trust Deed and the Custodial Agreement;
- Monitoring the register of Unitholders or contributors;
- Ascertaining the Fund Manager's compliance with the Applicable Regulations;
- Ascertaining that the monthly and other periodic returns/reports relating to the Fund are sent by the Fund Manager to the Commission;
- Taking all steps and executing all documents which are necessary to secure acquisitions or disposals properly made by the Fund Manager in accordance with the Trust Deed and Custodial Agreement;
- Exercising any right of voting conferred on it as the registered holder of any investment and/or forward to the Fund Manager within a reasonable time all notices of meetings, reports, circulars, proxy solicitations and any other document of a like nature for necessary action;
- Ensuring that fees and expenses of the Fund are within the prescribed limits; and
- Acting at all times in the interest and for the benefit of unit holders of the Scheme.

JOINT TRUSTEES' REPORT

Administration of the Fund:

During the period under review, the asset allocation of the Fund did not conform with the provisions of the Trust Deed due to the dearth of investible Real Estate Assets. A high proportion of the Fund was held in money market investments during the period, which contravened the asset allocation threshold stipulated in the Trust Deed.

Except as stated above, the Fund was administered in accordance with the Applicable Regulations, taking into cognisance prevailing market conditions as well as the need to preserve and minimise possible losses to Unitholders' funds during the period under review.

Charitable donations:

The Fund did not make any charitable donations during the period.

Auditors:

PricewaterhouseCoopers, the Fund's Auditors, have indicated their willingness to continue in office and shall do so.

By Order of the Joint Trustees

Adekunle Awojobi
Managing Director
FBN Trustees Limited
16 Keffi Street, Ikoyi
Lagos, Nigeria
18 February 2015

Tokunbo Ajayi
Managing Director
UBA Trustees Limited
UBA House, 57 Marina
Lagos, Nigeria
18 February 2015

FUND MANAGER'S REPORT 2014

ECONOMIC & FINANCIAL MARKET REVIEW

The general stability in the Nigerian macroeconomic environment came under stress in the later part of 2014, as the vulnerability of the economy to the volatility in the crude oil prices led to a re-pricing of risks in the economy, with significant pull-out of funds from the financial markets by foreign portfolio investors. The sharp decline in crude oil prices led to a supply gap in the foreign exchange market, as the demand for dollars outpaced supplies. The persistent and increased demand for foreign exchange led to a persistent decline in the value of the Naira in the second half of 2014, with an attendant attrition of the external reserves. The demand pressure remained unabated and led to the eventual devaluation of the Naira, with the CBN moving the mid-point of the foreign exchange rate from N155/US$1 with a band of +/-3% to N168/US$1 with a band of +/-5%.

The inflation rate remained in the CBN preferred single digit region in 2014. According to the National Bureau of Statistics (NBS), the lowest, highest and average inflation rates recorded between January 2014 and December 2014 are 7.7%, 8.5% and 8.1% respectively. Inflation rate accelerated to 8.5% in August 2014, due to the increase in food prices. The increase in food prices is the result of the security challenges in the Northern part of the country. However, the inflation rate reduced to 8.0% in December 2014 as a result of slower increase in the food prices due to the harvest season.

In 2014, the prices of fixed-income securities trended downwards towards the end of the year, resulting in higher yields. This is due to the exit of foreign portfolio investments resulting from the security challenges and the uncertainty in the political terrain.

The Nigerian equities market recorded a decline in 2014, as the Nigerian Stock Exchange All Share Index (NSE ASI) depreciated by 16.14% as at December 31, 2014. The performance of the equities market is at variance with its performance for the same period in 2013 as the NSE ASI appreciated by 47.19% in 2013.

Despite the security challenges in the North Eastern region of the country, the real estate sector continues to grow and contribute to the GDP of the country. The industry, which is valued at approximately N6.5 Trillion, contributed 11% to GDP growth in 2014, up from 8.03% in 2013*. Specifically, the Lagos real estate market, which has evolved in the last decade, continued to lead and report significant growth in both the prime residential and commercial sub-segments. The key growth factors include population growth, economic growth, rising consumer disposable income, introduction of mortgages, improvement in land titling/ ownership transfer and government's development plans.

The country is gradually emerging as one of the newest destination for commercial real estate investments in Africa, as the commercial sub segment of the sector, comprising mostly office and retail spaces, witnessed significant growth during the year.

Detail Commercial Solicitors Nigerian Real Estate Guide (Vol1 2015 Edition)

FUND MANAGER'S REPORT 2014

FUND PERFORMANCE

The Fund, which listed on July 1, 2013, traded a total of 28.66 million units at prices between N8.55 and N11.02 durring the year while it closed at N10.00 on December 31, 2014.

The Earnings yield on investment in the Fund rose from 15.20% in June 2014 to 18.20% in December 2014. In addition, the Fund made an interim distribution of N0.56k to unit holders for the 13-month period ended June 30, 2014 representing a dividend yield of 5.6%.

The current asset allocation of the Fund is as stated below;

S/N	ASSET CLASS	ASSET ALLOCATION
1	Real Estate Assets	76.70%
2	Real Estate Related Assets	2.25%
3	Liquid Assets	21.05%
	Total	**100.00%**

Although the allocation to Real Estate asset class exceeds the target minimum of 75%, the allocation to liquid asset exceeds the maximum investment of 10%. This is as a result of the dearth of quality real estate assets that meet the requirements of the Fund. It is expected that additional investments in real estate and or real estate related assets will be made in the next financial year, which will ensure that the target asset allocation is achieved.

The table below briefly describes the Real Estate assets held by the Fund, with the current rental yield and the class of tenants currently occupying them.

PROPERTY	LOCATION	CURRENT YIELD	PROPERTY TYPE	TENANTS	LENGTH OF TENANCY AGREEMENT	VACANCY RATE
Abebe Court	Ikoyi, Lagos	5.30%	Residential	A mix of corporate(84%) and individual(16%) client	80% annual; 20% biennially	6.7%
Victoria Mall Plaza Phase 1	Victoria Island, Lagos	6.50%	Residential	Major international oil producing company	2011 - 2015	0%

FUND MANAGER'S REPORT 2014

Victoria Mall Plaza Phase 2	Victoria Island, Lagos	4.50%	Commercial	Major international auditing/ consulting firm	2012 – 2014	0%
UAC Office Block	CBD, Abuja	6.80%	Commercial	Various corporate clients including four(4) banks	30% annual; 50% biennially; 20% between 3 and 5 years	8.0%
1-2 Factory Road Aba	Aba	5.80%	Commercial	Various corporate clients including a leading logistics company	67% annual; 33% between 2 and 3 years	0%

The average occupancy rate on all the real estate assets of the UPDC REIT is 97%. This high occupancy rate is largely as a result of the quality of the real estate assets in the Fund and the calibre of tenants occupying the properties. The tenants of the Fund are a mix of corporate clients and high net worth individuals, with long leases and most of them have a very high tendency of renewing their leases. Some of the corporate tenants have remained tenants in the properties for almost 20 years. This assures investors of the ability of the Fund to consistently earn and distribute income to its unit holders.

We have concluded the sale of 4 units of Abebe Court and intend to sell the other units as soon as possible. The proceeds from the sale will be utilised for the purchase of a commercial real estate asset, with a minimum rental yield of 7%.

In addition, the Fund invested in the First Festival Mall Limited (the SPV for the development of the Festival Mall in Festac).The Fund's investment represents 20% shareholding of First Festival Mall Limited. This investment has been classified as a Real Estate Related Asset. Festival Mall is a retail centre with 10,961 square meters of net lettable space situated around Festac in Lagos. The Project is being sponsored by UACN Property Development Company Plc ("UPDC") and co-owned by UPDC REIT and CAP Festival Limited.

It is expected that the mall will be completed and open to customers by June 2015. 95% of the gross lettable area of the mall has already been leased to quality tenants and it is expected that the remaining space will be fully let by the time the mall is completed. The investment is projected to generate an Internal Rate of Return (IRR) of 17.7%.

FUND MANAGER'S REPORT 2014

Over the last 19 months, the Fund has earned a total of N4.84 billion this is made up of N2.25 unrealised capital gains and N2.58 billion realised income. This performance resulted in an earnings yield of 18.20% as at December 31, 2014.

In line with the Fund's Trust Deed, which requires the payment of 90% of the Fund's income as distribution to unit holders, the total distribution to unit holders for the 19 months period will be N2.31 billion. This represents 90% of the realised income for the 19 months period. Further to the interim distribution of N1.48 billion already paid, the Fund Manager is proposing a final distribution of N834.94million.

OUTLOOK

We expect a growth in the real estate market as the demand for real estate properties will increase due to the population growth in Nigeria. The expected growth will likely be in the residential and commercial property sub-segment.

The growth in the residential space would be driven by property developers leveraging on Nigeria's housing deficit, which is estimated at 17 million units and the increase in demand for affordable housing by the emerging middle class.

Over the last 5 years the number of retail property developments have risen from near zero to almost 30 and this trend in expected to continue, as property developers and investors continue to explore the opportunities available in this segment.

The UPDC REIT portfolio is diversified and positioned to benefit from the growth opportunities in both the residential and commercial sub-segment. The Fund Manager will ensure that the Fund continues to maintain the quality of the real estate assets in its portfolio and also invest in high yielding investment grade real estate related assets in order to deliver on its promise to generate and distribute competitive returns to its unit holders.

STATEMENT OF THE FUND MANAGER'S RESPONSIBILITIES

The Fund Manager is responsible for the preparation of the financial statements which give a true and fair view of the state of affairs of the Fund for the 19 months ended 31 December 2014 and of the net income for the period ended 31 December 2014.

The responsibilities include ensuring that:

i. the Fund keeps accounting records which disclose with reasonable accuracy the financial position of the Fund and which ensure that the financial statements comply with the requirements of the relevant accounting standards;
ii. appropriate and adequate internal controls are established to safeguard the assets of the Fund and to prevent and detect fraud and other irregularities;
iii. the Fund prepares its financial statements using suitable accounting policies supported by reasonable and prudent judgments and estimates that are consistently applied; and
iv. it is appropriate for the financial statements to be prepared on a going concern basis.

The Fund Manager accepts responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates in conformity with the International Financial Reporting Standards, the requirements of the Companies and Allied Matters Act of Nigeria, Financial Reporting Council of Nigeria Act, Investments and Securities Act and relevant circulars issued by the Securities and Exchange Commission.

The Fund Manager is of the opinion that the financial statements give a true and fair view of the state of financial affairs of the Fund and of its financial performance.

The Fund Manager further accepts responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the Fund Manager to indicate that the Fund will not remain a going concern for at least twelve months from the date of this statement.

BY ORDER OF THE FUND MANAGER
FSDH Asset Management Limited

Hamda Ambah	**Olumayowa Ogunwemimo**	**Bamidele Ojo**
Director	Director	Chief Financial Officer
FRC/2013/CISN/00000001749	FRC/2013/ICAN/00000001742	FRC/2012/ICAN/00000000569
18 February 2015	18 February 2015	18 February 2015

pwc

REPORT OF THE INDEPENDENT AUDITOR TO THE UNIT HOLDERS OF UPDC REAL ESTATE INVESTMENT TRUST

Report on the financial statements

We have audited the accompanying financial statements of UPDC Real Estate Investment Trust ("the fund"). These financial statements comprise the statement of financial position as at 31 December 2014 and the statements of comprehensive income, changes in equity and cash flows for the 19 months period then ended, and a summary of significant accounting policies and other explanatory notes.

Fund manager's responsibility for the financial statements

The fund manager is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Investment and Securities Act and for such internal control, as the fund manager determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform our audit to obtain reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the fund manager, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion the accompanying financial statements give a true and fair view of the state of the fund's financial affairs at 31 December 2014 and of its financial performance and its cash flows for the 19 months period then ended in accordance with International Financial Reporting Standards and the requirements of the Investments and Securities Act and the Financial Reporting Council of Nigeria Act.

INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA
A0902732

For: **PricewaterhouseCoopers**
Chartered Accountants
Lagos, Nigeria

23 February 2015

Engagement Partner: Sam Abu
FRC/2013/ICAN/00000001495

STATEMENT OF COMPREHENSIVE INCOME

	Notes	19 months to 31 December 2014 N'000
Income from investment properties	5	**2,048,292**
Interest income	6	**1,390,874**
Net loss on financial assets held for trading	7	**(7,506)**
Fair value gain on investment properties	12	**2,255,865**
Total income		**5,687,525**
Operating expenses	8	**(843,690)**
Profit before tax		**4,843,835**
Tax		**-**
Profit after tax		**4,843,835**
Increase/(decrease) in net assets attributable to unit holders		**4,843,835**
Earnings per share per profit attributable to equity holders of the Fund		
Earnings per share - basic (Naira)	19	1.82
Earnings per share - diluted (Naira)	19	1.82

The accompanying notes as set out from note 1 to 20 form an integral part of these financial statements.

UPDC REAL ESTATE INVESTMENT TRUST
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FOR THE 19 MONTHS ENDED 31 DECEMBER 2014

STATEMENT OF FINANCIAL POSITION

	Notes	31 December 2014 N'000
Assets:		
Bank balances	9	**72,889**
Financial assets held for trading	10	**6,422,138**
Financial assets classified as available-for-sale	11	**694,600**
Investment properties	12	**23,708,000**
Other assets	13	**29,460**
Total assets		**30,927,087**
Liabilities:		
Other liabilities	14	**894,788**
Total liabilities		**894,788**
Net assets attributable to equity holders of the Fund		**30,032,299**
Equity:		
Capital and reserves attributable to equity holders of the Fund		
Share capital	15	**26,682,695**
Retained earnings		**3,349,604**
		30,032,299

The accompanying notes as set out from note 1 to 20 form an integral part of these financial statements.

SIGNED ON BEHALF OF THE DIRECTORS OF THE FUND MANAGER ON 18TH FEBRUARY 2015

Hamda Ambah (Director of the Fund Manager)
FRC/2013/CISN/00000001749

Olumayowa Ogunwemimo (Director of the Fund Manager)
FRC/2013/ICAN/00000001742

Bamidele Ojo (Chief Financial Officer)
FRC/2012/ICAN/00000000569

STATEMENT OF CASH FLOWS

	Notes	31 December 2014 N’000
Operating activities		
Cash used in operations	16	(2,819,243)
Interest received		1,387,745
Net cash flow from operating activities		(1,431,498)
Investing activities		
Purchase of investment properties	12	(21,861,110)
Proceeds from sale of investment properties	12	408,975
Net cash flow from investing activities		(21,452,135)
Financing activities		
Proceeds from public offer	15	26,682,695
Offer cost		(495,504)
Interim distribution paid		(1,494,231)
Net cash flow from financing activities		24,692,960
Net Increase in cash and cash equivalent for the year		1,809,327
Analysis of changes in cash and cash equivalents:		
Cash and cash equivalents at end of year	17	1,809,327
Cash and cash equivalents at start of year		-
At 31 December 2014		1,809,327

The statement of accounting policies and accompanying notes as set out from note 1 to 20 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

ATTRIBUTABLE TO EQUITY HOLDERS OF THE FUND

	Share capital	Retained earnings	Total
At 6 June 2013	26,682,695	-	26,682,695
Transfer from statement of comprehensive income	-	4,843,835	4,843,835
Dividend paid to equity holders	-	(1,494,231)	(1,494,231)
	-	3,349,604	3,349,604
At 31 December 2014	26,682,695	3,349,604	30,032,299

1 General information

The UPDC Real Estate Investment Trust the “Fund”, established in June 6 2013, is a close-ended Real Estate Investment Trust which is listed on the Nigerian Stock Exchange (NSE). The units of the Fund can be bought and sold through a licensed stockbroker on the floor of the exchange.

The public offer of the Fund closed on March 27, 2013 and it was 88.94% subscribed. This implies that a total of N26.68billion was raised. The Securities & Exchange Commission approved the basis of allotment of the offer on June 3, 2013 and the net offer proceeds was transferred to the Custodian, United Bank for Africa Plc (Global Investor Services Division) on June 5, 2013. The management of the Fund portfolio commenced on June 6, 2013. The Fund was listed on the Nigerian Stock Exchange on July 1, 2013 at N10.00 only. Since its listing, a total of 28.66 million units have been traded and has traded between N8.55 and N11.02. The UPDC REIT made an interim distribution of 56kobo to unit holders on December 4, 2014.The UPDC REIT closed at a unit price of N10.00 on December 31, 2014.

The primary objective of the Fund is to enable investors earn stable income while preserving capital over the long term. This is achieved by ensuring stable cash distributions from investments in a diversified portfolio of income–producing real estate properties and to improve and maximize unit value through the ongoing management of the Fund’s assets, acquisitions and development of additional income-producing real estate properties.

The Fund investments are made by the Fund Manager with the consent and approval of the Investment Committee in any of the following asset classes and in accordance with the maximum limit allowed. The limit allowed for each investment class is as stated below:

Asset Class	Minimum Limit	Maximum Limit
Real estate properties	75.00%	100.00%
Real estate related assets	0.00%	25.00%
Liquid assets	0.00%	10.00%

This implies that:

1. A maximum of 100% or a minimum of 75% of the REIT’s assets may be invested in real estate (properties)
2. A maximum of 25% or a minimum of 0% of the REIT’s assets may be invested in real estate related assets such as equities of a real estate company
3. A maximum of 10% or a minimum of 0% of the REIT’s assets may be invested in liquid assets

The Investment Committee is made up of three independent members (one of whom is the Chairman) who are seasoned professionals in real estate business and two representatives each of the Fund manager, trustees and property manager.

The proceeds from the offer was utilised and the following was the resulting asset allocation

Asset Class	Asset Allocation
Real estate assets	75.19%
Liquid assets	24.81%
Total	100%

These financial statements were authorised for issue by the Investment Committee on 18 February 2015.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied, unless otherwise stated.

2.1 Basis of preparation

These are the first financial statements of the Fund and cover the 19 months period ended 31 December 2014 prepared in line with approval obtained from the Securities and Exchange Commission. The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standard Board. Additional information required by national regulations is included where appropriate. The financial statements have been prepared in accordance with the going concern principle under the historical cost convention as modified by the measurement of certain financial assets held at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Fund Manager to exercise its judgement in the process of applying the Fund’s accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. The Fund Manager believes that the underlying assumptions are appropriate and that the Fund’s financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

The financial statements are presented in Naira, which is the Fund's functional and presentational currency. The figures shown in the financial statements are stated in thousands.

(a) Standards, amendments and interpretations effective on or after 1 January 2014

The following standards have been adopted by the group for the first time for the financial year beginning on or after 1 January 2014 and have a material impact on the Fund:

• **Amendment to IAS 32**: 'Financial instruments: Presentation' on offsetting financial assets and financial

This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the group financial statements.

• **IAS 36**: ' Impairment of assets' (effective for periods beginning on or after 1 January 2014)

IAS 36 Impairments of assets has been recently amended to address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less cost of disposal. This amendment removed certain disclosures of the recoverable amount of Cash Generating Units (CGUs) which had been included in IAS 36 by the issue of IFRS 13.

• **Amendment to IAS 39**, 'Financial instruments: Recognition and measurement' on the novation of derivatives and the continuation of hedge accounting.

This amendment considers legislative changes to 'over-the-counter' derivatives and the establishment of central counterparties. Under IAS 39 novation of derivatives to central counterparties would result in discontinuance of hedge accounting. The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument meets specified criteria. The group has applied the amendment and there has been no significant impact on the group financial statements as a result.

• **IFRS 10** - ' Consolidated Financial Statements- amendments' (effective for periods beginning on or after 1 January 2014)

Amendments to IFRS 10,'Consolidated financial statements', implies that many funds and similar entities will be exempt from consolidating most of their subsidiaries, instead, they will be measure at fair value through profit or loss. The amendments also give an exception to entities that meet an ' investment entity' definition and which display some particular characteristics. The Fund is yet to assess the full effect of the amendments to IFRS 10 and intends to adopt the amendments to IFRS 10 no later than the accounting period ending on or after 1 January 2014

• **IFRS 12** - ' Amendments to Disclosure of Interests in Other Entities' (effective for periods beginning on or after 1 January 2014)

Some changes were made to IFRS 12 to introduce disclosures which an entity that meets the definition of an investment entity and also display some particular characteristics needs to make. The Fund Manager is yet to assess the full effect of the amendments to IFRS12 and intends to adopt the amendments to IFRS 12 no later than the accounting period beginning on or after 1 January 2014.

b) New and amended standards effective from 1 January 2014 which do not materially impact on the Fund

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Fund, except the following set out below:

IFRS 15: 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service.

The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The group is assessing the impact of IFRS 15.

(c) Standards and interpretations issued but not yet effective

The following standards and interpretations have been issued and are mandatory for the Fund's accounting periods beginning on or after 1 January 2015 or later periods and are expected to be relevant to the Fund:

The Fund Manager is in the process of assessing the impact of the guidance set out below on the Fund and the timing of its adoption by the Fund
• **IFRS 9**: Financial instruments: Classification and measurement (effective for periods beginning on or after 1 January 2018)

• **IFRS 9**: 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L.

The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and
measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss.

IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted.

IFRS 9 addresses the recognition, de-recognition, classification and measurement of financial assets and financial liabilities. In respect of financial assets, IFRS 9 replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortised cost and fair value. The classification and measurement of financial liabilities have remained as per IAS 39 with the exception of financial liabilities designated at fair value through profit or loss where the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income.

The Fund Manager is yet to assess IFRS 9's full impact.

(d) Early adoption of standards

The Fund did not early adopt new or amended standards in 2014.

2.2 Financial assets and liabilities

In accordance with IAS 39, all financial assets and liabilities – which include derivative financial instruments – have to be recognised in the statement of financial position and measured in accordance with their assigned category.

2.2.1 Financial assets

The Fund classifies financial assets to the following IAS 39 categories: (a) financial assets at fair value through profit or loss; (b) loans and receivables; (c) held-to-maturity investments; and (d) available-for-sale financial assets. Management determines the classification of its financial instruments at initial recognition.

(a) Financial assets at fair value through profit or loss

This category comprises two sub-categories: financial assets classified as held for trading, and financial assets designated by the Fund as at fair value through profit or loss upon initial recognition.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading, unless they are designated and effective as hedging instruments. Financial assets held for trading consist of debt instruments, including money-market paper and equity instruments. They are recognised in the statement of financial position as 'Financial assets held for trading'.

Financial instruments included in this category are initially measured at fair value; transaction costs are taken directly to profit or loss and subsequently measured at fair value with gains and losses arising from changes in fair value recognised in 'Net gains / (losses) from financial instruments classified as held for trading' in the Statement of Comprehensive Income. Interest income and dividend income on financial assets held for trading are included in 'Interest and similar income' and 'other income' respectively. The instruments are derecognised when the rights to receive cash flows have expired or the Fund has transferred substantially all the risks and rewards of ownership and the transfer qualifies for derecognition.

The Fund did not designate financial assets upon initial recognition as at fair value through profit or loss (fair value option).

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:
(1) those that the Fund intends to sell immediately or in the short term, which are classified as held for trading, and those that the Fund upon initial recognition designates as at fair value through profit or loss;
(2) those that the Fund upon initial recognition designates as available for sale; or
(3) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.
Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the asset including any transaction costs – and measured subsequently at amortised cost. Loans and receivables are reported in the statement of financial position as bank balances.
The Fund's loans and receivables include the following, 'call placement with banks', and 'receivables'

(c) Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Fund has the positive intention and ability to hold to maturity, other than:
(1) those that the Fund upon initial recognition designates as at fair value through profit or loss;
(2) those that the Fund designates as available-for-sale; and
(3) those that meet the definition of loans and receivables.

These are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method.

Interest on held-to-maturity investments is included in the statement of comprehensive income and reported under ‘Interest income’. In the case of an impairment, the impairment loss is been reported as a deduction from the carrying value of the investment and recognised in the statement of comprehensive income as ‘Net gains/(losses) on investment securities’. As at balance sheet date, the Fund does not have any held-to-maturity financial asset.

(d) Available-for-sale financial assets

Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with fair value gains and losses being recognised in the statement of comprehensive income, and cumulated in a separate reserve in equity, available for sale reserve, until the financial asset is derecognised. Interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available-for-sale are recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in the statement of comprehensive income in ’Dividend income’ when the Fund’s right to receive payment is established. Financial assets in this category are disclosed on the statement of Financial Position as "Financial assets classified as available for sale".

(e) Recognition

Financial assets are recognised on settlement dates. The varying class and nature of the financial assets determines the settlement which may be different from the trade date. Financial instruments such as debt and equity securities are recognised on settlement date other than the trade date while receivables are recognised on trade date which represents its settlement date.

2.2.2 Financial liabilities

The Fund’s holding in financial liabilities represent mainly payables recorded in ’Other liabilities’. Payables are obligations to pay for services that have been received in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Payables are recognised at cost.

Financial Instruments – Classification

The Fund classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held to maturity and available for sale. The classification depends on the purpose for which the financial asset was acquired. The Fund Manager determines the classification of its financial assets at initial recognition. The Fund uses settlement dates accounting for regular way contracts when recording financial assets transactions. The classification made can be seen in the table as follows:

	Classes as determined by the Fund		**Subclasses**
Financial assets	Held-for-trading	Debt securities	Treasury bills
	Loans and receivables	Equity securities	Unquoted equity securities
Financial liabilities	Financial liabilities at amortised cost	Other liabilities	Account Payable

2.2.3 Determination of fair value

At initial recognition, the best evidence of the fair value of a financial instrument is the transaction price (i.e. the fair value of the consideration paid or received), unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument, without modification or repackaging, or based on valuation techniques such as discounted cash flow models and option pricing models whose variables include only data from observable markets

Subsequent to initial recognition, for financial instruments traded in active markets, the determination of fair value of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges for example, Nigerian Stock Exchange (NSE) and broker quotes from the Financial Markets Dealers Quotations (FMDQ). The Fund, though permitted to hold quoted equities of real estate companies, has not invested in any equity since inception.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, Nigeria Interbank offer rate yield curve, Foreign exchange rates, volatilities and counterparty spreads) existing at the dates of the statement of financial position. However, for illiquid financial instruments, the fair values are further adjusted to compensate for the credit risks attached to the issuers.

2.2.4 Derecognition

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the entity tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition). Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

2.2.5 Reclassification of financial assets

The Fund may choose to reclassify a non-derivative financial asset held for trading out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near-term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near-term. In addition, the Fund may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the Fund has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made.

2.3 Investment Properties

Investment properties include income producing properties and properties under development (land or building, or part of a building, or both) that are held by the Fund, or leased by the Fund as a lessee under a finance lease, to earn rentals or for capital appreciation or both but are not for sale in the ordinary course of business, use in the production or supply of goods and services or for administrative purposes.

The Fund invests primarily in a diversified portfolio of quality residential and commercial real estate properties in Nigeria. Its principal targeted assets are investment in prime locations within Lagos, Abuja and other major cities in Nigeria.

The first set of properties were purchased from the promoter; UAC Properties Development Company Plc. In acquiring property, a comprehensive selection processes were undertaken to ensure that it meets the Fund's investment criteria which includes a). Type of property, b.) location of the property, c.) valuation of the property, d.) comprehensive due diligence to de-risk the uncertainty of title and e.) approval of the Investment Committee.

Investment properties are initially recognized at property cost including related transaction costs and where applicable borrowing costs associated with the acquisition of the property.

After initial recognition, investment property is carried at fair value. Investment property under construction is measured at fair value if the fair value is considered to be reliably determinable. Investment properties under construction for which the fair value cannot be determined reliably, but for which the Fund expects that the fair value of the property will be reliably determinable when construction is completed, are measured at cost less impairment until the fair value becomes reliably determinable or construction is completed - whichever is earlier. Fair value is based on active market prices, adjusted, if necessary, for differences in the nature, location or condition of the specific asset. If this information is not available, the Fund uses alternative valuation methods, such as recent prices on less active markets. Valuations are performed as of the financial position date by professional valuers who hold recognised and relevant professional qualifications and have recent experience in the location and category of the investment property being valued. These valuations form the basis for the carrying amounts in the financial statements. Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value.

The fair value of investment property reflects, among other things, rental income from current leases and other assumptions market participants would make when pricing the property under current market conditions.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Fund and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognised.

If a valuation obtained for a property held under a lease is net of all payments expected to be made, any related lease liability recognised separately in the consolidated statement of financial position is added back to arrive at the carrying value of the investment property for accounting purposes.

Changes in fair values are recognised in the income statement. Investment properties are derecognised when they have been disposed.

For investment properties, the fair valuation was done at 31 December 2014 by independent professionally qualified valuers who hold a recognised relevant professional qualification and have recent experience in the locations and segments of the investment properties valued. For all investment properties, their current use equates to the highest and best use. In carrying out the valuation, a professionally qualified internal valuer associated with the promoter (UPDC) was employed and he used the appropriate methods of valuation which includes a. direct market comparison, b. investment/income capitalisation method and c. cost method or depreciated replacement cost approach. Each of these methods were used where appropriate on the relevant properties.

2.4 Interest income and expense

Interest income for all interest-bearing financial instruments are recognised within 'interest income' in the statement of comprehensive income using the effective interest method. The Fund does not have any interest expense as at the balance sheet date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Fund estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.5 Rental income from properties

Rental income from investment properties is recognised on a straight-line basis over the lease term. When the Fund provides incentives to its tenants, the cost of incentives is recognised over the lease term, on a straight-line basis, as a reduction of rental income. Rental Income earned but are yet to be paid by the tenant(s) are recorded as "rent receivables" in the notes to the account and reported under "other assets" in the statement of financial position.

Rent paid in advance and yet to be earned are recorded as "Rent received in advance" under other liabilities in the statement of financial position.

2.6 Dividend income

Dividend on investments in quoted equities of real estate companies are recognised when such dividends are declared at the annual general meetings of the dividend paying companies. Dividend is accrued on the basis of the units of shares held by the Fund as at the share register closure date and is accounted for at gross of withholding tax. The resultant tax is separately accounted for and disclosed in the statement of comprehensive income as 'Tax'.

The Fund does not have any investment in quoted equities during the period.

2.7 Impairment of financial assets

a) Assets carried at amortised cost

The Fund Manager assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal repayments, the probability that they will enter bankruptcy or other financial re-organisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate to defaults

For Loans and receivable category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. If a financial instrument has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

b) Assets classified as available for sale

The Fund Manager assesses at each date of the statement of financial position whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the statement of comprehensive income.

c) Rent receivables

For rent receivables, the Fund Manager, with the assistance of the property manager, assesses at each reporting date of the Fund whether there is objective evidence that a rent receivable is impaired. Each owing tenant are accessed for their ability to pay based on previous payment history. The property manager engage the tenant(s) a month before tenancy expiration, reminder letters are sent to the tenants and meetings held where applicable. When it is evidenced that a receivable is impaired, such losses are recognised in the statement of comprehensive income as a reduction of the rental income. If, in a subsequent period, the rent is received, it will be recognised as a reversal through the statement of comprehensive income as "other income".

2.8 Cash and cash equivalent

For the purposes of statement of cash flow, cash and cash equivalents are balances that are held for the primary purpose of meeting short term cash commitments. Hence this includes cash in hand and cash equivalents that are readily convertible to known amount of cash, are subject to insignificant risk of changes in value and whose original maturity is three months or less. This includes deposit held at call with banks and other short-term highly liquid investments which originally matures in three months or less (Treasury bills with less than 3 months maturity)

2.9 Retained earnings

Retained earnings represent undistributed earnings of the Fund.

2.10 Operating expenses

Management fees

Management fees are charged as 0.375% of the Net Asset Value of the Fund. The fees are accrued and paid quarterly in arrears.

Incentive fees

An annual incentive fee shall not exceed 10% of total returns in excess of 10% of the Net Asset Value of the Fund's net asset value per annum and is accounted for on an accrual basis or as soon as this condition is met.

Property Management fees

An annual fee of 3% of the gross rental income, payable quarterly in arrears.

2.11 Other expenses

All other expenses are recognised in the statement of comprehensive income on an accrual basis.

2.12 Taxation

The Fund is domiciled in Nigeria. There is no income, estate, corporation, capital gains or other gains or taxes payable by the Fund. The Fund would only incurs withholding taxes on dividend income. However, the Fund did not earn any dividend income during the period ended 31 December 2014. The Fund is also expected to charge value added tax on sale of investment properties or any part thereof and remit same to the responsible authorities.

2.13 Distributions

In line with the provisions of the Trust Deed, minimum of 90% of the Fund's distributable income will be distributed to equity holders at the end of every financial year.

Distributable income represents the "profit after tax" less fair value gain on investment properties.

Distribution proposed for the year are not accounted for but disclosed in the financial statements and appropriated from retained earnings after the approval of the equity holders at the Fund's Annual General Meeting (AGM).

2.14 Accrued expenses

Accrued expenses are expenses incurred in the ordinary course of business to suppliers, Fund manager and other parties to the Fund. They are recognised initially at fair value and subsequently stated at amortised cost using the effective interest method.

2.15 Equity capital

Unit holdings of the Fund are classified as equity capital. Incremental costs directly attributable to the issue of new units or options are shown in equity as a deduction from the proceeds, net of tax. Incremental costs directly attributable to the issue of new units or options, are included in the cost of acquisition as part of the purchase consideration. Purchase and redemptions of units are done on the floor of the Nigerian Stock Exchange at prices determined by the forces of demand and supply.

2.16 Earnings per share

Basic earnings per share is calculated by dividing the profit/(loss) for the year by the weighted average number of units in issue during the year, excluding the average number of units purchased by the Fund and held as treasury shares.

Diluted earnings per share is calculated by adjusting the weighted average number of units outstanding to assume conversion of all dilutive potential units.

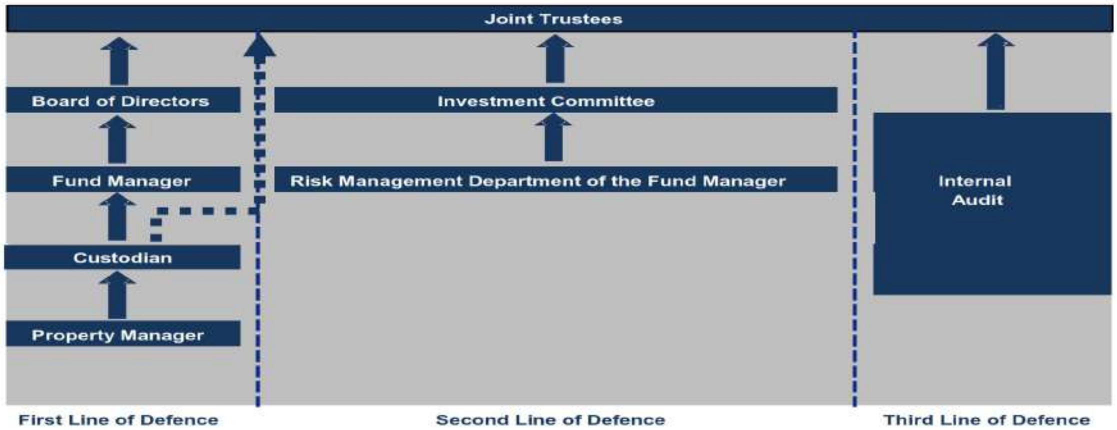
3 Risk Management Objective and Policies

3.1 Financial risk management

The Fund generates revenues for unit holders by investing in various income generating activities which involve rental income on investment properties, trading real estate equity securities on the stock exchange and trading in government securities. These activities expose the Fund to a variety of financial risks, including credit, liquidity risk and the effects of changes in debt and equity market prices and interest rates. The Fund's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

Risk management is carried out by the Fund Managers under direction of the investment committee and FSDH Merchant Bank Limited's Group Risk Management Department. The investment committee works within policies approved by the Fund's Trustee. Fund Managers review the market trends and information available to evaluate the potential exposures. They then arrive at strategies to mitigate against these risks. The Group Risk Department provides the Fund Managers with written guidelines for appropriate investments. These guidelines are reviewed on a regular basis and are within the Collective Investment Scheme regulations issued by the Securities and Exchange Commission (SEC).

The investment risk management framework also adheres to regulatory requirements in relation to investment policies; assets mix, valuation, diversification, asset and liability matching, and risk management. It also includes setting market, credit, liquidity and other investment risk management strategies and policies, developing management procedures to ensure that investments are only transacted in line with these policies, and having an appropriate system of measurement, monitoring, reporting and control underpinning investment activities.



The Fund's financial instruments are categorised as follows:

31 December 2014	**Financial Assets**			**Financial Liabilities**
In thousands of Nigerian Naira	**Loans and receivables**	**Held-for-trading**	**Available-for-sale**	**At amortised cost**
Financial assets:				
Bank balances				
-Loans to banks	72,889			
Financial assets held for trading				
- Treasury bills		6,422,138		
Financial assets classified as available for sale				
- Unquoted equities			694,600	
Other assets				
- Rent receivables	22,201			
Financial liabilities:				
Other liabilities:				
Other accounts payable				852,233

3.2 Liquidity risk

Liquidity risk is the risk that the Fund though solvent, has insufficient liquid assets to meet its obligations such as operational costs and distribution to unit holders when they fall due. The liquidity profile of the Fund is a function of the asset mix as enunciated in the investment guidelines. To the extent that they are predictable, immediate demands for cash are not expected to pose undue liquidity risk for the Fund. An immediate demand for cash can only be a risk if there is liquidity shortage. A well-managed Fund will structure its assets in such a way that it will have enough cash and marketable securities to cover its known obligations. The Fund will invest 10% of its total portfolio in liquid assets of diversified nature and staggered tenors in order to ensure that it is always able to meet its obligations.

The Fund being a closed ended fund would not be faced with liquidity requests for redemption of units as units can only be sold to willing buyer(s) on the floor of the Nigerian Stock Exchange (NSE)

Liquidity maturity analysis

31 December 2014

Financial assets	**Due within 3 months**	**Due within 3 & 12 months**	**Due after 1 year**	**Total**
Cash and bank balances				
- Loans to banks	72,889	-	-	72,889
Financial assets held for trading				
- Treasury bills	5,972,259	449,879	-	6,422,138
	6,045,148	449,879	-	6,495,027
Financial liabilities	137,235	568,248	146,750	852,233
Net financial asset	5,907,913	(118,369)	(146,750)	5,642,794
Net asset attributable to equity holders				30,032,299
Percentage of liquid financial assets to Net assets attributable to equity holders				22%

The funding gap of liabilities after the 3 months would be funded by excess funds made available from within the 3 months.

3.3 Credit risk

The Fund is exposed to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The main concentration to which the Fund is exposed arises from the Fund's investments in debt securities. The Fund is also exposed to counterparty credit risk on cash and cash equivalents, and rent receivable from tenants All transactions in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal.

The maximum exposure to credit risk is the carrying amount of the financial assets as set out below.

Sector analysis of credit risk exposure

31 December 2014

	Bank balances	Financial assets held for trading	Receivables	Maximum Exposure
Government	-	6,422,138	-	6,422,138
Financial Institutions	72,889	-	-	72,889
Others	-	-	22,201	22,201
	72,889	6,422,138	22,201	6,517,228

3.4 Market risk

(a) Price risk

The Fund's exposure to the capital market make it susceptible to price movements of quoted equity securities' in its portfolio. It is expected that all the Fund's equity investments are quoted on the Nigerian Stock Exchange (NSE). In managing the risk arising from this class of investments, the Fund ensures diversification of its portfolio to include different sectors of the economy. Diversification of the portfolio is done in accordance with limits set by the Fund's Trust Deed and Investment Committee which provides for investments subject to a maximum of 25% of the value of the Fund in equities.

However, the Fund did not have any investment in equities during the period ended 31st December 2014.

This is the risk that prevailing market forces of demand and supply may negatively impact the Fund's underlying asset values and its ability to attain projected performance based on declining rental income and therefore result in reduced distributions to investors.

Over-supply and/or softening demand for real estate as a function of general economic conditions, will impact property values and rental income, as demand and supply imbalance will have a negative impact on real estate prices. Consequently, reduced occupancy levels and declining rental values will affect the Fund's operating performance, portfolio valuation and ultimately its capacity to distribute returns to investors.

With the expertise and track record of the Fund Manager, Property Manager and members of the Investment Committee, we expect that adverse changes in market conditions shall be effectively managed to ensure minimal impact on the operations and value of the Fund. Potential changes in market risk indicators such as adverse economic conditions that impact price of the underlying asset values are expected to be tabled before the Investment Committee by the Fund Manager for deliberation to ensue effective and proactive assessment and management of this risk.

Classification of financial assets

	31 December 2014 N'000
Financial assets held for trading	6,422,138
	6,422,138
The impact on the Fund's net asset attributable to equity holders if prices of financial asset held had increased or decreased by 5% with all other variables held constant	321,107

(b) Cashflow and fair value Interest rate risk

Interest rate risk arises from the effects of fluctuations in the prevailing levels of market interest rates on the fair value of financial assets and liabilities and future cashflows. The Fund's exposure to cashflow interest rate risk which is the risk that the future cashflows of a financial asset will fluctuate because of changes in market interest rates is minimal as it holds only cash and cash equivalents with fixed interest and has no interest bearing financial liabilities.

The Fund also holds fixed interest securities which expose the Fund to fair value interest rate risk. The Fund's fixed interest rate financial assets are government securities (treasury bills) and call placement with financial institutions.

However, the Fund may be indirectly affected by the impact of interest rate changes on the earnings of certain companies in which the Fund invests. The sensitivity of this on the Fund's net assets attributable to equity holders can not be fully determined.

(c) Foreign exchange risk

As at 31 December 2014, The Fund did not have investments denominated in foreign currency and as a result was not exposed to foreign exchange risk.

3.5 Capital management

The capital of the Fund is represented by equity. The Fund is a closed-ended Fund as such there are no daily subscriptions and redemptions that can affect the capital of the Fund as the Fund can only be traded at prices determined by the forces of demand and supply on the Nigerian Stock Exchange.

The Fund manager's objectives when managing capital are to safeguard the Fund's ability to continue as a going concern in order to provide returns for equity holders and benefits for other stakeholders.

In order to maintain or adjust the capital structure, the Fund may adjust the amount of distributions paid to equity holders, return capital to equity holders, issue new shares or sell assets to reduce debt. Also there is no regulatory capital requirement for the Fund.

3.6 Fair value estimation

Financial assets and liabilities not measured at fair value

	31 December 2014	
	Carrying Value N'000	**Fair value N'000**
Financial assets		
Cash and bank balances		
- Loans to banks	72,889	72,889
- Other assets	29,460	29,460
	102,349	102,349
Financial Liabilities		
Other liabilities	852,233	852,233
	852,233	852,233

Fair value hierarchy of financial assets and liabilities not measured at fair value is shown below

At 31 December 2014 (N'000)

	Level 1	Level 2	Level 3	Total
Cash and bank balances	-	72,889	-	72,889
Other assets	-	-	29,460	29,460
	-	72,889	29,460	102,349
Other liabilities	-	-	852,233	852,233
	-	-	852,233	852,233

Financial instruments measured at fair value

Treasury bills and bonds

Treasury bills represent short term instruments issued by the Central Bank of Nigeria. Bonds are debt instruments or contracts issued for an agreed period of time. The investor lends an amount of money to the issuer and earns interest on the investment until the maturity of the bond when the principal will be repaid. The fair value of actively traded treasury bills and bonds are determined with reference to quoted prices (unadjusted) in an active market for identical assets.

The fair values for illiquid bonds are obtained from the Financial Markets Dealers Quotations (FMDQ) bond price index. The bond prices are model prices derived from a modelled yield. The modelled yield is calculated by adding a risk premium to the valuation yield (corresponding tenor to maturity (TTM) yield interpolated off the FGN bond theoretical spot rate curve). This is used to calculate the bond bid price.

Risk premiums are derived by 2 methods described below;

1. Apply risk spread on latest acceptable trade for the respective bonds i.e. determine the spread between the bond yield on the latest acceptable trade and the FGN bond spot rate of comparable TTM.

2. Apply risk spread at issuance i.e. determine the spread between the bond yield at issuance and the FGN bond spot rate of comparable TTM. However, where the risk spread at issuance is less than 1% (100 basis points), a base risk premium of 100 basis points is applied.

The Fund was not carrying any bond as at the reporting date 31 December 2014

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Fund's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs) This hierarchy requires the use of observable market data when available.

The Fund considers relevant and observable market prices in its valuations where possible.

Fair value hierarchy of financial assets is shown below

At 31 December 2014 (N'000)

	Level 1	Level 2	Level 3	Total
Financial assets				
- Treasury bills	**6,422,138**	**-**	-	6,422,138
	6,422,138	-	-	6,422,138

4 Critical accounting estimates and judgements

The Fund's financial statements and its financial result are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the financial statements.

The Fund Manager makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standards. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events.

Fund Manager's judgements for certain items are especially critical for the Fund's results and financial situation due to their materiality.

4.1 Equity holders classification

The units of the Fund are not redeemable and are therefore not carried as financial liabilities. The Fund is a close-ended Fund

Units are bought or redeemed at prices determined by the forces of demand and supply on the Nigerian Stock Exchange (NSE) with no guarantees to the

The units are treated as equity in line with IAS 32

4.2 Financial asset measurement

Financial instruments at fair value through profit or loss are initially recognised at fair value while transaction costs, which are directly attributable to the acquisition or issue of the financial instruments, are recognised immediately through profit or loss. Financial instruments that are not carried at fair value through profit or loss are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial instruments. Subsequent to initial measurement, financial instruments are measured either at fair value or amortised cost depending on their classification.

The determination of fair value for financial assets and liabilities for which there is no observable market prices requires the use of valuation techniques as described in valuation methods and assumptions as disclosed in Note 3.6 above. For financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgement depending on liquidity concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

4.3 Valuation of Investment Property

Investment properties include income producing properties and properties under development (land or building, or part of a building, or both) that are held by the Fund, or leased by the Fund as a lessee under a finance lease, to earn rentals or for capital appreciation or both.

The Fund's investment property is measured at fair value. The Fund holds five investment properties being office buildings and residential buildings in Lagos, Abuja and Port Harcourt. The buildings are as listed below:

Property **State**	**Abebe Court, Ikoyi** **Lagos** **N'000**	**VMP I, Victoria Island** **Lagos** **N'000**	**VMP II, Victoria Island** **Lagos** **N'000**	**UAC Commercial Complex, Abuja** **FCT Abuja** **N'000**	**No 1 -2 Factory Road, Aba** **Abia** **N'000**	**Total** **N'000**
Beginning balance	**-**	**-**	**-**	**-**	**-**	**-**
Additions during the period	4,309,200	8,257,305	7,407,335	1,296,750	590,520	**21,861,110**
Disposals	(408,975)	-	-	-	-	**(408,975)**
Fair value gain	369,775	577,695	967,665	126,250	214,480	**2,255,865**
Fair value at 31 December 2014	**4,270,000**	**8,835,000**	**8,375,000**	**1,423,000**	**805,000**	**23,708,000**

Valuation Process

The fair value is based on active market prices, adjusted, if necessary, for differences in the nature, location or condition of the specific asset. If this information is not available, the Fund uses alternative valuation methods, such as recent prices on less active markets.

Valuations are performed as of the financial position date by professional valuers who hold recognised and relevant professional qualifications and have recent experience in the location and category of the investment property being valued. These valuations form the basis for the carrying amounts in the financial statements. Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value.

After the submission of the valuation report from the valuer, the Investment Committee which comprises of highly knowledgeable professionals in real estate business reviews the report.

At the financial year end, the Fund manager and the property manager:

- verifies all major inputs to the independent valuation report;
- assesses property valuation method used and movements when compared to the prior year valuation report;
- holds discussions with the independent valuer.

Valuation techniques

In carrying out the valuation, below are the various methods adopted by the valuer in determining the market value of investment properties.

- Direct market comparison method
- Investment/income capitalisation method
- Cost method or depreciated replacement cost (DRC)

The adoption of these methods for a particular property depends on the type and market condition of the property. Two or all of the above methods could be used for a particular property at a particular time by way of cross-checking figures. The valuer uses his discretion to adopt the most appropriate method suitable to that type of property being valued.

Direct market comparison is the most reliable and used where there is a form of recent sales price and current construction cost rate. This method was adopted for the valuation of the Abebe Court, Ikoyi because there is evidence of recent sales price of three flats in the property. This prices were analysed and compared with the prevailing market prices of similar properties within the neighbourhood.

Investment/income capitalisation method is usually adopted in determining the market value of an income producing property in the form of rentals. This method stands more appropriate in the absence of direct market comparison discussed above.

This method was adopted for the VMP I, VMP II and UAC commercial complex, Abuja because these properties are income generating and there are evidence of current rentals passing on the property.

Cost method or depreciated replacement cost (DRC) method is used for Factory road, Aba property because this method is suitable for the nature of the property which is an industrial premises. It has no comparable properties with recent sales transaction or rental income on similar properties in the neighbourhood.

Investment properties and valuation methods and assumptions used

Property **State**	**Abebe Court, Ikoyi** **Lagos** **N'000**	**VMP I, Victoria Island** **Lagos** **N'000**	**VMP II, Victoria Island** **Lagos** **N'000**	**UAC Commercial Complex, Abuja** **FCT Abuja** **N'000**	**No 1 -2 Factory Road, Aba** **Abia** **N'000**
Valuation method	Market value	Income capitalisation	Income capitalisation	Income capitalisation	Depreciation replacement cost method
Reasons for method used	Availability of evidence of recent sale of 3 flats	Available rental income	Available rental income	Available rental income	None related property around the neighbourhood
Assumptions used on income capitalisation method					
Number of years	N/A	Unexpired lease in the property is 92yrs	Unexpired lease in the property is 92yrs	Unexpired lease in the property is 76yrs	N/A
Rate of outgoing (deduction for repairs & maintenance)		15%	10%	15%	N/A
Valuation table scale used	N/A	YP 6% by 2.5%	YP 6% by 2.5%	YP 6% by 2.5%	N/A
Construction rate per m2	N/A	N/A	N/A	N/A	60
Depreciation replacement rate	N/A	N/A	N/A	N/A	Depreciation at the rate of between 15% - 30%

Fair value hierarchy of investment properties is shown below

At 31 December 2014 (N'000)

	Level 1	**Level 2**	**Level 3**	**Total**
Investment Properties:				
- Abebe Court, Ikoyi, Lagos	-	4,270,000	-	4,270,000
- VMP I, Victoria Island, Lagos	-	-	8,835,000	8,835,000
- VMP II, Victoria Island, Lagos	-	-	8,375,000	8,375,000
- UAC Commercial Complex, Abuja	-	-	1,423,000	1,423,000
- No 1 -2 Factory Road, Aba	-	-	805,000	805,000
	-	4,270,000	19,438,000	23,708,000

Sensitivity Analysis of properties on level 3:

Properties:	**VMP I, Victoria Island** **Lagos**	**VMP II, Victoria Island** **Lagos**	**UAC Commercial Complex, Abuja** **FCT Abuja**	**No 1 -2 Factory Road, Aba** **Abia**
Valuation Method	Income capitalisation	Income capitalisation	Income capitalisation	Depreciation replacement cost method
Valuation Rate/Basis	Unexpired lease in the property is 92yrs	Unexpired lease in the property is 92yrs	Unexpired lease in the property is 76yrs	N/A
Valuation table scale used	YP 6% by 2.5%	YP 6% by 2.5%	YP 6% by 2.5%	N/A
Fair Value	8,835,000	8,375,000	1,423,000	805,000
Sensitivity Analysis:	+/- 0.5% on YP 6% by 2.5%	+/- 0.5% on YP 6% by 2.5%	+/- 0.5% on YP 6% by 2.5%	+/- 5% on Depreciation Cost
Impact of increase in valuation scale/rate	650,794,510	616,926,483	102,338,640	35,735,474
Impact of decrease in valuation scale/rate	763,278,198	723,556,402	119,523,600	35,735,474

	19 months to 31 December 2014 N'000
5 Income from investment properties	
Rental Income	**1,979,057**
Gain on sale of investment properties	**69,235**
	2,048,292

	19 months to 31 December 2014 N'000
6 Interest income	
Loans to banks	**563,380**
Financial instruments held for trading	**827,494**
	1,390,874

	19 months to 31 December 2014 N'000
7 Net gains on financial assets held for trading	
Trading income	**6,819**
Unrealised fair value loss	**(14,325)**
	(7,506)

	19 months to 31 December 2014 N'000
8 Operating expenses	
Audit fees	**6,925**
Fund manager's fee	**171,823**
Property maintenance expenses	**36,835**
Registrar's fees	**1,237**
Trustees' fees	**6,416**
Professional fees	**353,756**
Custodian fees	**34,618**
Printing, advert and travels	**33,302**
Statutory fees	**117,949**
Property manager's fees	**60,634**
Insurance premium	**8,825**
Other operating expenses	**11,370**
	843,690

	31 December 2014 N'000
9 Bank balances	
- Loans to banks	**72,889**
	72,889
Current	**72,889**
Non-Current	**-**
	72,889

Loans to banks represents placement with banks in Nigeria

10 Financial assets held-for-trading	**31 December 2014 N'000**
Treasury bills	**6,422,138**
	6,422,138
Current	**6,422,138**
Non-Current	**-**
	6,422,138

11 Financial assets classified as available-for-sale	**31 December 2014 N'000**
Unquoted equity securities	
First Festival Malls Limited	**694,600**
	694,600
Current	**-**
Non-Current	**694,600**
	694,600

Investment in unquoted equity securities represents 20% equity investment in First Festival Mall Limited. First Festival Mall Limited is the special purpose vehicle set up to hold 100% interest in Festival Mall which is under construction and expected to be completed by June 2015.

	31 December 2014 N'000
12 Investment properties	
Beginning balance	-
Additions	21,861,110
Disposals	(408,975)
Fair value gain	2,255,865
	23,708,000
Current	-
Non-Current	23,708,000
	23,708,000

Details of the investment properties is in note 4.3

	31 December 2014 N'000
13 Other assets	
Prepaid Insurance	7,259
Rent receivables	22,201
	29,460
Current	29,460
Non-Current	-
	29,460

Rent receivables relate to rent due from tenants but had not been paid as at end of the period.

	31 December 2014 N'000
14 Other liabilities	
Financial liabilities:	
Fund manager's fee payable	27,634
Custodian fees payable	5,713
Deposit for property	82,500
Rent refundable	8,250
Rent received in advance	728,136
	852,233
Non financial Liabilities	
VAT payable	24,650
Accrued expenses	17,905
	42,555
	894,788
Current	748,038
Non-Current	146,750
	894,788

	31 December 2014
15 Share capital	
Authorised	
3,000,000,000 units of N10 each	**30,000,000**
Issued and fully paid	
2,668,269,500 units of N10 each	**26,682,695**

Unit holders have been disclosed as share capital because the Fund is a close ended Fund and the units are traded or the floor of the Nigerian Stock Exchange at prices determined by the forces of demand and supply.

	Notes	31 December 2014 N'000
16 Cash generated from operations		
Reconciliation of income before tax to cash generated from operations:		
Profit before tax		**4,843,835**
Adjustment for:		
– Fair value gain on investment properties	12	**(2,255,865)**
–Offer cost on IPO		**495,504**
– Net interest income	6	**(1,390,874)**
Changes in operating assets and liabilities:		
–Financial assets held-for-trading		**(4,682,571)**
–Financial assets classified as Available-for-sale		**(694,600)**
–Other assets		**(29,460)**
–Other liabilities		**894,788**
		(2,819,243)

	31 December 2014 N'000
17 Cash and cash equivalents	
the cash flow statement, cash	
- Treasury bills	**1,736,438**
- Loans to banks (Note 9)	**72,889**
	1,809,327

For the purposes of statement of cash flow, cash and cash equivalents are balances that are held for the primary purpose of meeting short term cash commitments. This includes deposit held on call with banks and other short-term highly liquid investments which originally matures in three months or less from when the Fund became a party to the instrument.

18 Related party transactions

The Fund is managed by FSDH Asset Management Limited (FSDH AM). FSDH AM is a subsidiary of FSDH Merchant Bank Limited which owns 99.7% of the Company's share capital. The Company has a 99.9% interest in FSDH Securities Limited.

During the period, the following related party activities occurred:

a. FSDH Asset Management earns management fees at the rate of 0.375% of the Net Asset Value (NAV) accrued and paid quarterly in arrears. Total sum of N171.82m was earned as management fees during the year. There was no incentive fees earned for the period ended 31 December 2014.

b. UACN Property Development Company Plc is the promoter of the Fund and held 62.28% of the total unit holdings of the Fund as at the reporting date. It is also the property manager and earns an annual property management fee of 3% of the gross rental income of the Fund, payable quarterly in arrears. The sum of N36.86m was earned as property management fee during the year.

c. Key management staff has been defined as members of management committee of the Fund Manager and its other related companies.

All related parties of the FSDH Merchant Bank Group and UACN Property Development Company Plc are also related parties to the Fund.

Units held by related parties to the Fund are listed below:

	31 December 2014 Units ₦'000
Direct	**1,661,730**
Indirect	-

19 Earnings per share

(i) Basic

Basic earnings per share is calculated

	31 December 2014
Profit after tax attributable to equity holders of the Fund (N'000)	**4,843,835**
Number of ordinary units in issue (000)	**2,668,270**
Basic earnings per share (expressed in Naira per share)	**1.82**

(ii) Diluted

The Fund does not have potential units with convertible options and therefore there is no dilutive impact on the profit attributable to the equity holders.

Diluted earnings per share (expressed in Naira per share)	**1.82**

20 Distributions	**31 December 2014 N'000**
Proposed distribution at N0.87kobo per share	**2,329,173**

Distributions are not accounted for until they have been ratified at the Annual General Meeting (AGM) of the equity holders. Total distribution of N0.87k per share totalling N2.33b representing 90% of distributable income of the Fund has been proposed for payment. An interim distribution of N0.56kobo per share, amounting to a total of N1.48b was paid to equity holders during the period and a final distribution of N0.31kobo per share amounting to N834.94m will be proposed at the next AGM. These financial statements do not reflect this resolution which will be accounted as an appropriation of retained earnings in the year ending 31 December 2015. Distributable income represents "Profit after tax" less unrealised fair value gain on investment properties.

Reconciliation of distribution	**₦'000**
Profit after tax	**4,843,835**
Less fair value gain on investment properties	**(2,255,865)**
Distributable income	**2,587,970**
Proposed distribution at 90% of distributable income	**2,329,173**
Interim distribution of N0.56kobo paid	**1,494,231**
Final distribution of N0.31kobo proposed	**834,942**
Total distribution for the 19 months ended 31 December 2014	**2,329,173**

UPDC REAL ESTATE INVESTMENT TRUST
OTHER FINANCIAL INFORMATION
FOR THE 19 MONTHS ENDED 31 DECEMBER 2014

	Dec 2014 ₦'000	%
Gross income	**5,687,525**	100
Value added	**5,687,525**	100
Distribution of value added:		
To Government:		
Tax	**-**	-
To Fund Manager and other parties:		
Expense	**843,690**	15
To providers of capital:		
Distributions	**1,494,231**	26
Retained in the fund:		
Retained earnings	**3,349,604**	59
	5,687,525	100