# UPDC REAL ESTATE INVESTMENT TRUST

## FINANCIAL STATEMENTS
## FOR YEAR ENDED 31 DECEMBER 2017

**UPDC REAL ESTATE INVESTMENT TRUST**
**FINANCIAL STATEMENTS**
**FOR YEAR ENDED 31 DECEMBER 2017**

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## PARTIES TO THE TRUST

**Trustees**
UBA Trustees Limited
UBA House (12th Floor)
57 Marina
Lagos
Telephone: (01) 2807032

**Trustees**
FBN Trustees Limited
16 Keffi Road
Off Awolowo Road, S.W. Ikoyi
Lagos
Telephone: (01) 4622673

**Fund Manager**
FSDH Asset Management Limited
8th Floor
1/5 Odunlami Street
Lagos Island
Lagos
Telephone: (01) 2704884-5

**Property Manager**
UACN Property Development Company Plc (UPDC)
REIT Business Manager
3rd Floors
1/5 Odunlami Street
Lagos Island, Lagos.
Telephone: (01) 2702201

**Registrars**
First Registrars Nigeria Limited
Plot 2 Abebe Village Road,
Iganmu
Lagos
Telephone: (01) 773086

**Custodian**
UBA Plc (Global Investor Services Division)
UBA House
57 Marina
Lagos
Telephone: (01) 2808349

**Banker**
United Bank for Africa Plc
Head Office Branch
UBA House
57 Marina
Lagos
Telephone: (01) 2808349

**Auditor**
PricewaterhouseCoopers
(Chartered Accountants)
Landmark Towers,
5B Water Corporation Drive
Victoria Island
Lagos
Telephone: (01) 2711700

**Joint Trustees' Report on the UPDC Real Estate Investment Trust**

***For the Financial Statements for the period ended 31 December 2017***

The Trustees present their report on the affairs of the UPDC Real Estate Investment Trust, together with the Financial Statements for the period ended 31 December, 2017.

***Principal activity:*** The principal activity of the UPDC Real Estate Investment Trust (the "Trust") is to pool 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 period ended 31 December, 2017 are set out on pages 14 and 15.

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

| | | |
|---|---|---|
| Mrs. Hamda A. Ambah | (Chairperson) | Appointed in 2017 |
| Mrs. Olumayowa Ogunwemimo | (Managing Director) | |
| Mrs. Morohunke Bammeke | (Director) | |
| Mrs. Folashade Ogunde | (Director) | |

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

| | |
|---|---|
| Mr. Larry Ettah | (Chairman) |
| Mr. Hakeem Ogunniran | (Managing Director) |
| Mrs. Halima Alao | (Director) |
| Mr. Abdul Bello | (Director) |
| Mr. Adekunle Awojobi | (Director) |
| Prof. Okon A. Ansa | (Director) |
| Mrs. Niun Taiwo | (Director) |

***Directors' and related parties' interest in the units of the Trust:*** The Directors of the Fund Manager and Sponsor with direct beneficial interest in the units of the Trust are detailed below:

| | |
|---|---|
| Mr. Hakeem Ogunniran | 1,000,000 |
| Mrs. Folashade Ogunde | 400,000 |
| Mrs. Hamda A. Ambah | 50,000 |
| Mrs. Halima Alao | 20,000 |
| Mrs. Niun Taiwo | 20,000 |

None of the directors of FBNQuestTrustees Limited and United Capital Trustees Limited has any direct beneficial interest in the units of the Trust.

***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 Trust 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 Trust are within the prescribed limits; and

- Acting at all times in the interest and for the benefit of unit holders of the Scheme.

***Administration of the REIT:*** During the period under review, the asset allocation of the REIT did not conform with the provisions of the Trust Deed due to the dearth of investible Real Estate Assets. Apart from this breach, the Fund was administered in accordance with the applicable regulations, taking into cognisance prevailing market conditions as well as preserving and minimising possible losses to unit holders' funds.

***Charitable donations:*** The REIT did not make any charitable donations during the period.

***Auditors:*** PricewaterhouseCoopers, the REIT's Auditors, have indicated their willingness to continue in office.

***By Order of the Joint Trustees***

***Adekunle Awojobi***
***Managing Director***
***FBNQuest Trustees Limited***
***10 Keffi Street, Ikoyi***
***Lagos, Nigeria***
***08 March, 2018***

***Tokunbo Ajayi***
***Managing Director***
***United Capital Trustees Limited***
***UBA House, 57 Marina***
***Lagos, Nigeria***
***08 March, 2018***

UPDC REAL ESTATE INVESTMENT TRUST

## UPDC REIT FUND MANAGER'S REPORT FOR DECEMBER 2017

Nigerian macroeconomic environment improved towards the end of 2017 as the recovery from recession begun. The CBN Purchasing Managers' Index (PMI) report for the month of December 2017 showed that business activities improved in both the manufacturing and non-manufacturing sectors. At 59.3 and 62.1 points, the Composite Manufacturing PMI and Composite Non-Manufacturing PMI respectively attained the highest levels since January 2015.

The value of the Naira was relatively stable in 2017. The stability can be attributed to the introduction of the CBN's policy on the Importers & Exporters (I&E) foreign exchange Window, the increase in crude oil price, the increase in foreign reserves and increase in foreign capital inflow. The value of the Naira traded at N500/US$ at the parallel market of the foreign exchange market before the implementation of the I&E Window.

The average premium between the Nigeria Inter-bank Foreign Exchange (NIFEX) rate and parallel market rate reduced from N156.91 as at 01 January 2017 to N32.50 on 29 December, 2017.

Year-on-year, the value of the Naira depreciated by 8.52% to close at N331/US$ at the NIFEX market at end-December 2017, compared with end-December 2016. At the parallel market, it appreciated significantly by 35.08% to close at N363.50/US$ at end-December 2017, compared with end-December 2016.

According to the CBN, the 30-Day Moving Average of Nigeria's external reserves stood at US$38.77bn as at 29 December, 2017, representing an increase of US$12.93bn or 50.04%, compared with US$25.84bn as at the end-December 2016.

The inflation rate recorded persistent decline in 2017. The base effect from previous year's Consumer Price Indices and stability in the foreign exchange rate led to the consistent drop in the inflation rate in 2017. The inflation rate dropped to 15.37% in December from 18.72% in January 2017.

The prices of fixed-income securities remained low while yields increased in the first five months of 2017. However, the yields dropped from June through December 2017 reflecting the improvement in the macroeconomic environment. The decrease was as a result of the relative availability of liquidity in the system.

The CBN maintained the Monetary Policy Rate (MPR) at 14% throughout the year and retained the symmetric corridor of -5% and +2% around the MPR. It also retained the cash reserve requirement (CRR) at 22.50%; and maintained the Liquidity Ratio (LR) at 30% for Deposit Money Banks.

Despite the improvement in the macroeconomic environment in the later part of year 2017, the real estate market was not affected significantly by the improvement. This is mainly due the usual lag between economic recovery and market recovery. There were fewer developments and slower take-up rate for existing properties. In order to attract tenants, Landlords had to reduce rental rates, offer longer rent-free period and reduce the tenor of leases.

**UPDC REIT PERFORMANCE**

The Trust traded a total of 1.32 million units in 2017 and closed at a price of N10.00 on December 31, 2017. The earnings yield on investment in the Trust as at December 31, 2017 was 8.10%.

The asset allocation of the Trust as at 31 December 2017 is as stated below;

| S/N | ASSET CLASS | ASSET ALLOCATION |
|---|---|---|
| **1** | Real Estate Assets | 79.14% |
| **2** | Real Estate Related Assets | 5.55% |
| **3** | Liquid Assets | 15.28% |
| | **Total** | **100.00%** |

Although the allocation to Real Estate asset class exceeds the target minimum of 75%, the allocation to liquid asset exceeded the maximum investment of 10%. This is as a result of the inability to find qualifying real estate or real estate related assets that met Trust's requirements.

In the course of the year , we had identified a couple of real estate assets , but they were either overpriced or did not meet the investment criteria of the Trust, hence we could not conclude on the acquisition.

However, one of the real estate assets identified, an Hostel, meets the investment criteria of the Trust. In this regard, the investment committee approved that the Trust invest in Pearl Hostel 1 at the Pan Atlantic University.
Further to the investment committee's approval, we have commenced the required due diligence and forwarded our final offer letter in respect of Pearl Hostel 1. We expect to conclude the purchase transaction for Pearl Hostel 1 by mid-January 2018.
The proposed investment in Pearl Hostel 1 will reduce the current allocation in liquid assets to 13.5%.

In order to ensure that the target asset allocation is achieved, we will continue to seek additional investments in real estate or real estate related assets, in the next financial year.

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

| PROPERTY | LOCATION | CURRENT YIELD | PROPERTY TYPE | TENANTS | LENGTH OF TENANCY AGREEMENT | VACANCY RATE |
|---|---|---|---|---|---|---|
| Abebe Court | Ikoyi, Lagos | 5.49% | Residential | A mix of corporate(84%) and individual(16%) client | Annually | 7.6% |
| Victoria Mall Plaza Phase 1 | Victoria Island, Lagos | | Residential | | | 100% |
| Victoria Mall Plaza Phase 2 | Victoria Island, Lagos | 6.59% | Commercial | Major international auditing/ consulting firm | Annually | 0% |
| UAC Office Block | CBD, Abuja | 6.55% | Commercial | Various corporate clients including four(4) banks | 30% annual; 50% biennially; 20% between 3 and 5 years | 6.1% |
| 1-2 Factory Road Aba | Aba | 7.72% | Commercial | Various corporate clients including a leading logistics company | 67% annual; 33% between 2 and 3 years | 0% |

The performance of the Trust was affected negatively by the challenging macroeconomic environment as VMP 1, is currently vacant and not generating income. In addition, the projections during the initial public offer of the Trust had assumed that the properties purchased by the Trust between 2014 and 2015 would be sold in 2017, and would generate some income. The expected income on the assumed sale will not come in as the Trust was unable to acquire additional properties between 2014 and 2015, partly due to the macroeconomic environment and also because the fund manager could not identify qualifying assets which meets the Trust's benchmark returns.

This implies that the Trust could not earn any capital appreciation on sale of property in 2017 and rental income on VMP1, as assumed in the projections.

In this regard, the Investment Committee requested that the projections be revised in line with the achievable income.

The Fund Manager and Property Manager reviewed the projections for 2017, and same was approved for adoption by the Investment Committee on December 14, 2016.

Please note that from the revised projections, the expected earnings yield for year 2017 was 6.13% down from 14.3% earlier projected.

The property manager is currently working to ensure that VMP 1 and other vacant spaces/flats are occupied and generating income. The property manager engaged other estate agents to source for tenants for the vacant spaces, especially VMP 1. Thus far, VMP 1 has been offered to both individuals and multinationals. It is expected that the property will be tenanted and generating income before the end of Q2 2018.

The Trust has earned a total of N2.21billion, which has resulted in an earnings yield of 8.30% as at December 31, 2017. In line with the Trust Deed, which requires the payment of 90% of the Trust's income as distribution to unit holders, the total distribution to unit holders for the 12 months period will be N1.4billion. This represents 90% of the realised income for the period. Further to the interim distribution of N1.17 billion already paid, the Fund Manager is proposing a final distribution of N225 million.

**OUTLOOK**

Despite the current challenges, over the long term, we expect that the Nigerian real estate sector would improve as the growing population and middle class continue to generate the demand for commercial property (the retail sub-sector) and residential property, ranging from mass market affordable housing to high-end luxury properties. *UN forecasts suggest that the population of Lagos will grow by more than 70% during the 2010-2025 period, while the population of Africa will almost quadruple to more than four billion by 2100, with nearly one billion of these people in Nigeria alone. This projected growth in the population would continue to attract International real estate investors and property developers to the country, especially Lagos.

The UPDC REIT portfolio is diversified and positioned to benefit from the growth opportunities in both the residential and commercial sub-segment. In addition, the Fund Manager will continue to seek additional investment in quality real estate assets and real estate related assets and ensure that the Trust 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.

**Olumayowa Ogunwemimo**
**Managing Director, FSDH Asset Management Limited**

**Africa Report 2015 – Knight Frank*
***Nigeria Retail & Office Market update 2016 - Broll Property Services Ltd*

## 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 Trust for the year ended 31 December 2017 and of the net income for the period ended 31 December 2017.

The responsibilities include ensuring that:

i. the Trust keeps accounting records which disclose with reasonable accuracy the financial position of the Trust 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 Trust and to prevent and detect fraud and other irregularities;
iii. the Trust 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 annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates in conformity with:

i. International Financial Reporting Standards
ii. Financial Reporting Council of Nigeria Act
iii. Investments and Securities Act
iv. Relevant circulars issued by the Securities and Exchange Commission.

The Fund Manager further accepts responsibility for the maintenance of accounting records that may be relied upon in the preparation of the 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 Trust 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** |
| Director | Director |
| FRC/2013/CISN/00000001749 | FRC/2013/ICAN/00000001742 |
| 27 March 2018 | 27 March 2018 |

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# *Independent auditor's report*

To the Members of UPDC Real Estate Investment Trust

## *Report on the audit of the financial statements*

### *Our opinion*

In our opinion, UPDC Real Estate Investment Trust's ("the Trust's") financial statements give a true and fair view of the financial position of the Trust as at 31 December 2017, and of its financial performance and its cash flows for the year 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.

**What we have audited**

UPDC Real Estate Investment Trust's financial statements comprise:

- the statement of financial position as at 31 December 2017;
- the statement of comprehensive income for the year then ended;
- the statement of changes in units and reserves for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Independence**

We are independent of the Trust in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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## *Key audit matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. 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.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Valuation of investment properties – N23.9 billion (refer to notes 2.3, 4.4 and 14)* | |
| We focused on this balance because significant judgement is exercised in determining the valuation technique to apply to each specific property and because of the complexity involved in the estimation process. | We obtained the valuation reports prepared by the Fund Manager for all properties and assessed whether the valuation technique adopted for each property was suitable in determining the fair value of the property.<br><br>We assessed the independence, qualifications and expertise of the valuation experts to determine whether there were any matters that might have affected their objectivity or competence.<br><br>We carried out procedures to test whether property-specific information supplied to the valuation experts (such as rental income and title held on each property) reflected the underlying property records held by the Trust.<br><br>We used property specific information and external data to independently develop a range of estimates and compared to the Fund Manager's estimates.<br><br>We also reviewed the disclosure for compliance with relevant standards. |

## *Other information*

The Fund Manager is responsible for the other information. The other information comprises the Trustees report, Fund Manager's Report, Statement of Fund Manager's Responsibilities, Statement of value added and Four Year Financial Summary (but does not include the financial statements and our auditor's report thereon).

Our opinion on the financial statements does not cover the other information and we do not and will 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 identified above 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, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, 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.

## *Responsibilities of the Fund Manager and those charged with governance for the financial statements*

The Fund Manager is responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Investments and Securities Act, the Financial Reporting Council of Nigeria 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.

In preparing the financial statements, the Fund Manager is responsible for assessing the Trust'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 Fund Manager either intends to liquidate the Trust or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Trust's financial reporting process.

## *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 will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the 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, we exercise professional judgment 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 purpose of expressing an opinion on the effectiveness of the Trust's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund Manager.
- Conclude on the appropriateness of the Fund Manager's 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 Trust'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 Trust 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.

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.

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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 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.

INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA
36/ICAN
0136049

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

29 March 2018

Engagement Partner: Chidi Ojechi
FRC/2017/ICAN/00000015955

## STATEMENT OF COMPREHENSIVE INCOME

| | Notes | **31 December 2017 N'000** | 31 December 2016 N'000 |
|---|---|---|---|
| Income from investment property | 6 | **1,124,723** | 1,104,033 |
| Interest income | 7 | **1,131,039** | 750,272 |
| Net gain/(loss) on financial assets held for trading | 8 | **79,696** | (98,166) |
| Net (loss)/gain on financial assets at fair value through profit or loss | 9 | **(139,474)** | 292,580 |
| Other income | 10 | **85,385** | - |
| Fair value gain/(loss) on investment property | 15 | **356,410** | (204,637) |
| **Net income** | | **2,637,779** | 1,844,082 |
| Operating expenses | 11 | **(429,432)** | (331,943) |
| Profit before tax | | **2,208,347** | 1,512,139 |
| Tax | 12 | **-** | - |
| **Profit after tax** | | **2,208,347** | 1,512,139 |
| **Increase in net assets attributable to unit holders** | | **2,208,347** | 1,512,139 |
| Earnings per unit attributable to unit holders of the Trust | | | |
| Earnings per unit - basic and diluted (Naira) | 24 | **0.83** | 0.57 |

*The accompanying notes form an integral part of these financial statements.*

**UPDC REAL ESTATE INVESTMENT TRUST**
**FINANCIAL STATEMENTS**
**FOR YEAR ENDED 31 DECEMBER 2017**

## STATEMENT OF FINANCIAL POSITION

| | Notes | 31 December 2017 N'000 | 31 December 2016 N'000 |
|---|---|---|---|
| **Assets:** | | | |
| Bank balances | 12 | **455,580** | 7,307 |
| Financial assets held for trading | 13 | **4,858,866** | 5,484,515 |
| Financial assets at fair value through profit or loss | 14 | **2,016,968** | 2,684,945 |
| Other assets | 16 | **157,188** | 258,645 |
| Investment property | 15 | **23,869,750** | 23,428,563 |
| Property and equipment | 17 | **89,518** | 126,651 |
| Total assets | | **31,447,870** | 31,990,626 |
| **Liabilities:** | | | |
| Accounts payable | 18 | **53,563** | 101,882 |
| Rent received in advance | 19 | **155,569** | 1,036,993 |
| Total liabilities | | **209,132** | 1,138,875 |
| Net assets attributable to unit holders of the Trust | | **31,238,738** | 30,851,751 |
| **Represented by:** | | | |
| Units and reserves attributable to unit holders of the Trust | | | |
| Unit holders' contributions | 20 | **26,682,695** | 26,682,695 |
| Retained earnings | | **4,556,043** | 4,169,056 |
| | | **31,238,738** | 30,851,751 |

*The accompanying notes form an integral part of these financial statements.*

**SIGNED ON BEHALF OF THE DIRECTORS OF THE FUND MANAGER ON 27TH MARCH 2018 BY**

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

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

Additional Certification:

**Wasiu Shafe (Chief Financial Officer of the Fund Manager)**
FRC/2015/ICAN/00000012973

**STATEMENT OF CHANGES IN UNITS AND RESERVES** **ATTRIBUTABLE TO UNIT HOLDERS OF THE TRUST**

| | Unitholders' contributions | Retained earnings | Total |
|---|---|---|---|
| | N'000 | N'000 | N'000 |
| **At 1 January 2016** | 26,682,695 | 4,364,611 | 31,047,306 |
| Comprehensive income | | | |
| Profit for the year | - | 1,512,139 | 1,512,139 |
| Transactions with unit holders in their capacity as unit holders: Distribution paid to unit holders | - | (1,707,694) | (1,707,694) |
| | - | (195,555) | (195,555) |
| **At 31 December 2016/1 January 2017** | **26,682,695** | **4,169,056** | **30,851,751** |
| Comprehensive income | | | |
| Profit for the year | - | 2,208,347 | 2,208,347 |
| | | 2,208,347 | 2,208,347 |
| Transactions with unit holders in their capacity as unit holders: Distributions paid to unit holders | - | (1,821,359) | (1,821,359) |
| | - | 386,988 | 386,988 |
| **At 31 December 2017** | **26,682,695** | **4,556,043** | **31,238,738** |

## STATEMENT OF CASH FLOWS

| | Notes | **31 December 2017** | 31 December 2016 |
|---|---|---|---|
| | | **N'000** | N'000 |
| **Cash flow from operating activities** | | | |
| Cash generated from /(used in) operating activities | 21 | **80,162** | (147,947) |
| Interest received | | **996,462** | 676,172 |
| **Net cash flow generated from operating activities** | | **1,076,624** | 528,225 |
| **Cash flows from investing activities** | | | |
| Additional investment in First Festival Mall | 14 | **(85,132)** | - |
| Improvement of investment property | 15 | **(84,777)** | - |
| Proceeds from investment | 14 | **725,523** | - |
| Purchase of property and equipment | 17 | **(16,000)** | (150,065) |
| **Net cash generated from/(used) in investing activities** | | **539,614** | (150,065) |
| **Cash flows from financing activities** | | | |
| Distributions paid to unit holders | | **(1,821,359)** | (1,707,692) |
| **Net cash flow used in financing activities** | | **(1,821,359)** | (1,707,692) |
| Net decrease in cash and cash equivalent for the period | | **(205,121)** | (1,329,532) |
| Analysis of changes in cash and cash equivalents: | | | |
| Cash and cash equivalents at start of period | | **1,470,115** | 2,799,647 |
| Net decrease in cash and cash equivalent for the period | | **(205,121)** | (1,329,532) |
| Cash and cash equivalents at end of period | 22 | **1,264,994** | 1,470,115 |

*The accompanying notes form an integral part of these financial statements.*

1 **General information**

The UPDC Real Estate Investment Trust the "Trust", 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 Trust can be bought and sold through a licensed stockbroker on the floor of the exchange.

The primary objective of the Trust 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 property and to improve and maximize unit value through the ongoing management of the Trust's assets, acquisitions and development of additional income-producing real estate property.

These financial statements were authorised for issue by the Investment Committee on the 27 March 2018.

**2. Basis of preparation**

The financial statements for period ended 31 December 2017 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 and investment property 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 Trust'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 theTrust'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 Trust's functional and presentation currency. The figures shown in the financial statements are stated in thousands of Naira, unless otherwise stated.

**2.1 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.

(a) Standards, interpretations and amendments effective during the reporting period

Amendment to the following standard became effective in the reporting period from 1st January, 2017. It did not have any material impact on the accounting policies, financial position or performance of the Trust.

**Amendments to IAS 7 - Statement of Cash Flows**

This amends IAS 7 to include disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. This includes providing a reconciliation between the opening and closing balances arising from the financing activities.

The standard provides that, going forward, entities will be required to explain changes in their liabilities arising from financing activities. This includes changes arising from cash flows and non-cash changes such as acquisitions, disposals, accretion of interest and unrealised exchange differences.

(b) New standards and interpretations effective after the financial period

The following standards and amendments to standards and interpretations are effective for annual periods beginning after 31 December 2017, and have not been applied in preparing these financial statements.

- **IFRS 15 Revenue from Contracts with Customers**

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognise transitional adjustments in retained earnings on the date of initial application (e.g 1 January 2017), i.e without restating the comparative period. They will only need to apply the new rules to contracts that are not completed as of the date of initial application.

The Fund manager is currently assessing the impact of the new rules. At this stage, the Fund manager is not able to estimate the impact of the new rules on the Trust's financial statements.

This standard is mandatory for financial years commencing on or after 1 January 2018.

- **IFRS 9: Financial Instruments**

• IFRS 9 replaces IAS 39 “Financial Instruments: Recognition and Measurement” and is effective for annual periods beginning on or after January 1, 2018 and it is required to be applied on a retrospective basis, with certain exceptions. As permitted, the Trust will apply the rules of the new standard from January 1, 2018 and will not restate the prior period comparative financial statements.
Differences in the carrying amounts of financial instruments resulting from the adoption of IFRS 9 will be recognized in the opening January 1, 2018 retained earnings.

The Fund manager is currently assessing the impact of the new rules. At this stage, the Fund manager is not able to estimate the impact of the new rules on the Trust’s financial statements.

Expected date of adoption by the Trust: 1 January 2018

(c) Early adoption of standards

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted. However, the Trust has not adopted any of such standards in preparing these financial statements

**2.2 Financial assets and liabilities**

The Trust classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets. The Fund classifies non-derivative financial liabilities into the following categories: financial liabilities at fair value through profit or loss and other financial liabilities.

| **Category (as defined by IAS 39)** | **Classes as determined by the Trust** | | **Subclasses** |
|---|---|---|---|
| Financial assets | Loans and receivables | Bank balances | Placement with banks |
| | | Other assets | Receivables |
| | | | Receivable from property manager |
| | Financial assets held for trading | Financial assets held for trading | Treasury bills |
| | | | Corporate bonds |
| | Financial assets at fair value through profit or loss | Financial assets at fair value through profit or loss | Unquoted equity |
| | | | Loan to Investee company |
| | | | Investment in real estate development |
| Financial liabilities | Financial liabilities at amortised cost | Account payables | Fund manager's fee payable |
| | | | Custodian fees payable |
| | | | Dividend payable |
| | | | Accrued expenses |
| | | Rent received in advance | Rent received in advance |

**'2.2.1 Financial assets**

The Trust allocates financial assets to the following categories: (a) financial assets at fair value through profit or loss; (b) loans and receivables. The Fund Manager determines the classification of its financial assets 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.

i). Financial assets at fair value through profit or loss

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. Financial assets held for trading consist of debt 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 statement of comprehensive income 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 income' and 'other income' respectively. The instruments are derecognised when the rights to receive cash flows have expired or the Trust has transferred substantially all the risks and rewards of ownership and the transfer qualifies for derecognition.

ii). Financial assets at fair value through profit or loss

These are investments in associates, which the Trust upon initial recgnition, elected to measure at fair value with fair value changes recognised in profit or loss.

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

(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 Trust intends to sell immediately or in the short term, which are classified as held for trading, and those that the Trust upon initial recognition designates as at fair value through profit or loss;
(2) those that the Trust 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.
The Trust's loans and receivables include the following: placement with banks and rent receivables.

**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 Trust's holding in financial liabilities represent mainly payables recorded in 'Accounts payables'. Payables are obligations to pay for services that have been received in the ordinary course of business from suppliers. 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 amortised cost but where the impact of discounting is deemed immaterial, they are recognised at cost..

**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 Trust, 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) 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 Trust 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 Trust 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 Trust may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading category if the Trust 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.

**2.2.6 Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

**2.3 Investment property**

Investment property include income producing properties and property under development (land or building, or part of a building, or both) that are held by the Trust to earn rental income 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.

Investment property are initially recognized at property cost including related transaction costs.

After initial recognition, investment property is carried at fair value. Investment property under construction is measured at fair value. Investment property under construction for which the fair value cannot be determined reliably, but for which the Trust 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 Trust uses alternative valuation methods, such as recent prices on less active markets. 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 Trust 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.

Changes in fair values are recognised in the statement of comprehensive income. Investment property are derecognised when they have been disposed or when no further economic benefits are expected from the property.

For investment property, the fair valuation is carried out by independent professionally qualified valuers who hold a recognised relevant professional qualification and have recent experience in the locations and segments of the investment property valued. For all investment property, their current use equates to the highest and best use.

Income on disposal of investment properties are recognised in the statement of comprehensive income under 'income from investment property'.

**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 Trust does not have any interest expense as at the reporting 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 Trust 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 property**

Rental income from investment property is recognised on a straight-line basis over the lease term. When the Trust 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 yet to be paid by the tenant(s) is 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" in the statement of financial position.

**2.6 Impairment of financial 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 rent receivables, the Fund Manager, with the assistance of the property manager, assesses at each reporting date of the Trust 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 engages 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".

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 statement of comprehensive income. 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.

**2.7 Property and equipment**

(i) Recognition and measurement

Items of prpperty and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. An asset is recognised when it is probable that economic benefits associated with the item flow to the Trust and the cost of the item can be reliable measured.
The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment and are recognized net within other operating income in statement of comprehensive income.
The assets' carrying values and useful lives are reviewed, and written down if appropriate, at each date of the statement of financial position. Assets are impaired whenever events or changes in circumstances indicate that the carrying amount is less than the recoverable amount.

(ii) Subsequent costs

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Trust and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to- day servicing of property and equipment are recognised in statement of comprehensive income.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis to write down the cost of each asset, to their residual values over the estimated useful lives of each part of an item of property and equipment. Leased assets under finance lease are depreciated over the shorter of the lease term and their useful lives.

Depreciation begins when an asset is available for use and ceases at the earlier of the date that the asset is derecognised or classified as held for sale in accordance with IFRS 5. A non-current asset or disposal company is not depreciated while it is classified as held for sale.

The estimated useful lives for the period are as follows:

-Office equipment - 33.33%

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

**2.8 Cash and cash equivalents**

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 placements with banks and other short-term highly liquid investments which originally matures in three months or less (such as treasury bills with less than 3 months maturity)

**2.9 Taxation**

The Trust is domiciled in Nigeria. There is no income, estate, corporation, capital gains or other gains or taxes payable by the Trust. The Trust only incurs withholding taxes on dividend and rental income. The Trust did not earn any dividend income during the period ended 31 December 2017 (December 2016: Nil). The Trust also charges value added tax on sale of investment property or any part thereof and remits same to the responsible tax authorities.

**2.10 Distributions**

Distributions are recognised in retained earnings in the period in which they are approved by the Joint Trustees. Distributions for the year that are declared after the date of the statement of financial position are dealt with in the subsequent events note in the financial statement.

**2.11 Unit holding**

Holdings of the Trust are classified as unit holding. Incremental costs directly attributable to the issue of new units, are shown as a deduction against unitholders contributions.

**2.12 Earnings per unit**

Basic earnings per unit is calculated by dividing the profit/(loss) for the year by the weighted average number of units in issue during the period.

Diluted earnings per unit 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

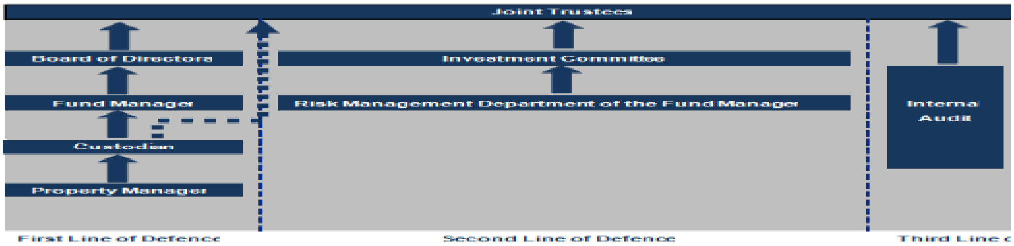
### 3.1 Financial risk management

The Trust generates revenues for unit holders by investing in various income generating activities which include rental income on investment property, trading real estate equity securities on the stock exchange and trading in government securities. These activities expose the Trust 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 Trust'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 Trust'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.

Risk Management Governance structure




The Trust 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 property | 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 (property)
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 Trust's financial instruments are categorised as follows:**

| 31 December 2017 | Financial Assets | | | Financial Liabilities |
|---|---|---|---|---|
| In thousands of Nigerian Naira | Loans and receivables | Held-for-trading | Financial assets at fair value through profit or loss | At amortised cost |
| **Financial assets:** | N'000 | N'000 | N'000 | N'000 |
| Bank balances | | | | |
| -Placement with banks | 455,580 | - | - | - |
| Financial assets held for trading | | | | |
| - Treasury bills | - | 4,284,128 | - | - |
| - Corporate bonds | - | 574,738 | - | - |
| Financial assets at fair value through profit or loss | | | | |
| - Investment in First Festival Mall (Note 14.1) | - | - | 925,065 | - |
| - Investment in real estate development | | | 1,091,903 | |
| Other assets | | | | |
| - Rent receivables | 19,537 | - | - | - |
| - Receivable from property manager | 129,005 | | | |
| **Financial liabilities:** | | | | |
| Account payable | - | - | - | 50,267 |

| 31 December 2016 | Financial Assets | | | Financial Liabilities |
|---|---|---|---|---|
| In thousands of Nigerian Naira | Loans and receivables | Held-for-trading | Financial assets at fair value through profit or loss | At amortised cost |
| **Financial assets:** | N'000 | N'000 | N'000 | N'000 |
| Bank balances | | | | |
| -Placement with banks | 7,307 | - | - | - |
| Financial assets held for trading | | | | |
| - Treasury bills | - | 4,902,981 | - | - |
| - Corporate bonds | - | 581,534 | - | - |
| Financial assets at fair value through profit or loss | | | | |
| - Investment in First Festival Mall (Note 14.1) | - | - | 1,052,740 | - |
| - Investment in real estate development | | | 1,632,205 | |
| Other assets | | | | |
| - Rent receivables | 61,722 | - | - | - |
| - Receivable from property manager | 165,151 | | | |
| **Financial liabilities:** | | | | |
| Accounts payable | - | - | - | 98,832 |

### 3.2 Liquidity risk

Liquidity risk is the risk that the Trust 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 Trust 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 Trust. An immediate demand for cash can only be a risk if there is liquidity shortage. The Trust 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 Trust being a closed ended Trust 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**

The tables below analyse the Trust's financial assets and financial liabilities into relevant maturity groupings based on their contractual maturities. The amounts disclosed in the table are the contractual undiscounted cash flows.

**31 December 2017**

| Financial assets | Due on demand | Due within 3 months | Due within 3 & 12 months | More than 1 year | Total |
|---|---|---|---|---|---|
| | N'000 | N'000 | N'000 | N'000 | N'000 |
| Bank balances | | | | | |
| - Placement with banks | 455,580 | - | - | - | 455,580 |
| Rent receivable | 19,537 | - | - | - | 19,537 |
| Receivable from property manager | - | - | 129,005 | | 129,005 |
| Financial assets held for trading | | | | | - |
| - Treasury bills | - | 1,243,720 | 3,218,000 | - | 4,461,720 |
| - Corporate bonds | - | 25,500 | 63,165 | 828,568 | 917,233 |
| Financial assets at fair value through profit or loss | | | | | - |
| - Investment in First Festival Mall (Note 14.1) | - | - | - | 925,065 | 925,065 |
| - Investment in real estate development | | | 1,091,903 | - | 1,091,903 |
| | 475,117 | 1,269,220 | 4,502,073 | 1,753,633 | 8,000,043 |
| Financial liabilities | - | 50,267 | - | - | 50,267 |
| Net financial asset | 475,117 | 1,218,953 | 4,502,073 | 1,753,633 | 7,949,776 |
| Net assets attributable to equity holders | | | | | 31,238,738 |
| Percentage of liquid financial assets to Net assets attributable to equity holders | | | | | 26% |

**31 December 2016**

| Financial assets | Due on demand | Due within 3 months | Due within 3 & 12 months | More than 1 year | Total |
|---|---|---|---|---|---|
| | N'000 | N'000 | N'000 | N'000 | N'000 |
| Bank balances | | | | | |
| - Placement with banks | 7,307 | - | - | - | 7,307 |
| Rent receivable | 61,722 | - | - | - | 61,722 |
| Receivable from property manager | - | - | - | 165,151 | 165,151 |
| Financial assets held for trading | | | | | |
| - Treasury bills | - | 2,046,000 | 1,675,000 | - | 3,721,000 |
| - Corporate bonds | - | - | 97,500 | 486,000 | 583,500 |
| Financial assets at fair value through profit or loss | | | | | |
| - Investment in First Festival Mall (Note 14.1) | - | - | - | 1,052,740 | 1,052,740 |
| | 69,029 | 2,046,000 | 1,772,500 | 1,703,891 | 5,591,420 |
| Financial liabilities | - | 98,832 | - | - | 98,832 |
| Net financial asset | 69,029 | 1,947,168 | 1,772,500 | 1,703,891 | 5,492,588 |
| Net assets attributable to equity holders | | | | | 30,851,751 |
| Percentage of liquid financial assets to Net assets attributable to equity holders | | | | | 18% |

## 3.3 Credit risk

The Trust 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 Trust is exposed arises from the Trust's investments in debt securities. The Trust 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 Trust considers the credit exposure to geographical sectors as immaterial as all the credit risk exposures are domiciled in Nigeria for all periods.

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 2017**

| | Bank balances | Financial assets held for trading | Financial assets at fair value through profit or loss | Receivables | Maximum Exposure |
|---|---|---|---|---|---|
| | N'000 | N'000 | N'000 | N'000 | N'000 |
| Government | - | 4,284,128 | - | - | 4,284,128 |
| Financial Institutions | 455,580 | - | - | - | 455,580 |
| Corporate | - | 574,738 | 925,065 | 129,005 | 1,628,808 |
| Others | - | - | - | 19,537 | 19,537 |
| | 455,580 | 4,858,866 | 925,065 | 148,542 | 6,388,053 |

**31 December 2016**

| | Bank balances | Financial assets held for trading | Financial assets at fair value through profit or loss | Receivables | Maximum Exposure |
|---|---|---|---|---|---|
| | N'000 | N'000 | N'000 | N'000 | N'000 |
| Government | - | 1,462,808 | - | - | 1,462,808 |
| Financial Institutions | 7,307 | - | - | - | 7,307 |
| Corporate | - | 581,534 | 1,052,740 | 165,151 | 1,799,425 |
| Others | - | - | - | 61,722 | 61,722 |
| | 7,307 | 2,044,342 | 1,052,740 | 226,873 | 3,331,262 |

The financial assets to which the Trust is exposed are mainly Federal Government of Nigeria (FGN) treasury bills to which as Nigeria's sovereign obligations, have low credit risk, corporate bonds and placement with banks.

A rating grid which shows the ratings of debt securities is illustrated below.

| | **31 December 2017** | 31 December 2016 |
|---|---|---|
| | **N'000** | N'000 |
| A+ | 455,580 | 7,307 |
| AAA | 336,931 | 280,974 |
| BBB | 237,807 | 300,560 |
| Unrated | 5,357,735 | 2,577,270 |
| | 6,388,053 | 3,166,111 |

The credit quality above was assessed with reference to Agusto & Co's rating (credit rating agency) at 31 December 2017 and 31 December 2016.

**Past due but not impaired**

As at 31 December 2017, receivables of N149.04million (2016: N226.87million) were past due but not impaired. These relate to a number of tenants and the Property Manager for whom there are no recent history of default. The ageing analysis of these rent receivables is as follows:

| | **31 December 2017 N'000** | 31 December 2016 N'000 |
|---|---|---|
| Up to 3 months | 1,285 | 44,216 |
| 3 to 9 months | 18,252 | 17,506 |
| | 19,537 | 61,722 |

All other financial assets were neither past due nor impaired.

**3.4 Market risk**

(a) Price risk

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

The Trust's exposures to the capital market make it susceptible to movements of prices of debt securities' in its portfolio. It is expected that some of the Trust's equity investments may be quoted on the Nigerian Stock Exchange (NSE). In managing the risk arising from this class of investments, the Trust 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 Trust's Trust Deed and Investment Committee which provides for investments subject to a maximum of 25% of the value of the Trust in equities. The Trust's investment in treasury bills and corporate bonds are also quoted on the Financial Market Dealers Quotations (FMDQ).

The Trust's investment in equity during the year ended 31 December 2017 is in First Festival Mall Limited and James Pinnock Estate (two special purpose vehicle set up to hold 100% interest in Festival Mall and James Pinnock Estate). The investments are not affected by price movement because they are unquoted.

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 Trust'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 Trust. 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 ensure effective and proactive assessment and management of the risk.

**Classification of financial assets**

| | **31 December 2017 N'000** | 31 December 2016 N'000 |
|---|---|---|
| Financial assets held for trading | 4,858,866 | 5,484,515 |
| | 4,858,866 | 5,484,515 |

The impact on the Trust's net asset attributable to unit holders if prices of financial asset held had increased or decreased by 5% with all other variables held constant is shown below:

| | | |
|---|---|---|
| Increase | 242,943 | 274,226 |
| Decrease | -242,943 | -274,226 |

(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 Trust'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 mainly cash and cash equivalents with fixed interest and has no interest bearing financial liabilities.

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

However, the Trust may be indirectly affected by the impact of interest rate changes on the earnings of certain companies in which the Trust invests. The sensitivity of this on the Trust's net assets attributable to equity holders is represented in the table below.

The table below shows the impact on the Trust's profit before tax if interest rates on the financial assets held for trading had increased by 100 basis points, with all other variables held constant.

| | **31 December 2017 N'000** | 31 December 2016 N'000 |
|---|---|---|
| Effect of 100 basis points movement on profit before tax | | |
| Increase | 48,589 | 54,845 |
| Decrease | (48,589) | (54,845) |

(c) Foreign exchange risk

The Trust did not have investments denominated in foreign currency as at 31 December 2017 (December 2016: Nil) and as a result was not exposed to foreign exchange risk.

**3.5 Capital management**

The capital of the Trust is represented by equity. The Trust is a closed-ended Trust as such there are no daily subscriptions and redemptions that can affect the capital of the Trust as the Trust 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 Trust'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 Trust 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 Trust.

**3.6 Fair value estimation**

**Financial assets and liabilities not measured at fair value**

| | **31 December 2017** | |
|---|---|---|
| | **Carrying Value N'000** | **Fair value N'000** |
| **Financial assets** | | |
| Bank balances | | |
| - Placement with banks | 455,580 | 455,580 |
| - Other assets | 148,542 | 148,542 |
| | 604,122 | 604,122 |
| **Financial Liabilities** | | |
| Other liabilities | 50,267 | 50,267 |
| | 50,267 | 50,267 |

| | 31 December 2016 | |
|---|---|---|
| | Carrying Value N'000 | Fair value N'000 |
| **Financial assets** | | |
| Bank balances | | |
| - Placement with banks | 7,307 | 7,307 |
| - Other assets | 226,873 | 226,873 |
| | 234,180 | 234,180 |
| **Financial Liabilities** | | |
| Other liabilities | 98,832 | 98,832 |
| | 98,832 | 98,832 |

For financial assets and liabilities not measured at fair value, their carrying values are reasonable approximation of their fair value.

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

**At 31 December 2017 (N'000)**

| | **Level 3** | **Total** |
|---|---|---|
| Bank balances | 455,580 | 455,580 |
| Other assets | 148,542 | 148,542 |
| | 604,122 | 604,122 |
| Other liabilities | 50,267 | 50,267 |
| | 50,267 | 50,267 |

**At 31 December 2016 (N'000)**

| | **Level 3** | **Total** |
|---|---|---|
| Bank balances | 7,307 | 7,307 |
| Other assets | 226,873 | 226,873 |
| | 234,180 | 234,180 |
| Other liabilities | 98,832 | 98,832 |
| | 98,832 | 98,832 |

**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 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.

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 Trust'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 Trust considers relevant and observable market prices in its valuations where possible.

Fair value hierarchy of financial assets is shown below

**At 31 December 2017 (N'000)**

| | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Financial assets | | | | |
| - Held for trading | 4,114,387 | 744,479 | - | 4,858,866 |
| - Financial assets at fair value through profit or loss | - | - | 2,016,968 | 2,016,968 |
| | 4,114,387 | 744,479 | 2,016,968 | 6,875,834 |

**At 31 December 2016 (N'000)**

| | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Financial assets | | | | |
| - Held for trading | 2,044,342 | - | - | 2,044,342 |
| - Financial assets at fair value through profit or loss | - | - | 2,684,945 | 2,684,945 |
| | 2,044,342 | - | 2,684,945 | 4,729,287 |

**Reconciliation of Level 3 items**

The following table presents the changes in level 3 items for the periods ended 31 December 2017 and 31 December 2016:

| | **31 December 2017** | | | 31 December 2016 | | |
|---|---|---|---|---|---|---|
| | **Investment in James Pinnock** | **Investment in First Festival Mall** | **Total** | Investment in James Pinnock | Investment in First Festival Mall | Total |
| | N'000 | N'000 | N'000 | N'000 | N'000 | N'000 |
| Opening balance | 1,632,205 | 1,052,740 | 2,684,945 | 1,475,635 | 694,600 | 2,170,235 |
| Additional investment | - | 85,132 | 85,132 | - | - | - |
| Fair valuation (loss)/gain | - | (324,695) | (324,695) | - | 222,129 | 222,129 |
| Repayment | (725,523) | - | (725,523) | - | - | - |
| Interest recognised in statement of comprehensive income | 185,221 | 111,889 | 297,111 | 156,570 | 136,011 | 292,581 |
| Closing balance | 1,091,904 | 925,066 | 2,016,969 | 1,632,205 | 1,052,740 | 2,684,945 |

**Valuation technique used valuation of Level 3 items:**

- Asset-based Approach was used for investments in both James Pinnock and First Festival Mall.

**Sensitivity Analysis of Festival Mall investment on level 3:**

Below is the sensitivity analysis of changes in parameter used in the valuation of the Festival Mall property. This shows the effect on the valuation if there is a plus or minus 2.50% in the valuation table scale used.

| | **31 December 2017 N'000** | 31 December 2016 N'000 |
|---|---|---|
| Fair Value of investment in Festival Mall and James Pinnock | 2,236,000 | 2,236,000 |
| Impact on the Trust's profit or loss if valuation scale/rate used increase by 5% | 111,800 | 111,800 |
| Impact on the Trust's profit or loss if valuation scale/rate used decrease by 5% | (111,800) | (111,800) |

**4 Critical accounting estimates and judgements**

The Trust'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 Trust's results and financial situation due to their materiality. These include:

**4.1 Equity holders classification**

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

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 equity holders of principal or return.

The units are treated as equity in line with IAS 32.

**4.2 Investment in real estate development**

The development of James Pinnock Estate, in which the Trust invested, is still on going. 49.2% of the sum invested has been received, while the balance will be due upon completion of the project. The Trust has determined that it has significant influence in this project as it holds a 49% interest and participates in decision making relating to the investment. The Trust has taken the IAS 28 exemption not to equity account for this investment and has consequently classified the investment at fair value through profit or loss.

**4.3 Classification and measurement of financial assets**

Financial assets that are measured on the basis of fair value are designated at fair value through profit or loss at initial recognition. The Trust has elected to measure its investment in First Festival Mall Limited and James Pinnock Estate at fair value through profit or loss.

**4.4 Valuation of investment property**

Investment property include income producing property and property under development (land or building, or part of a building, or both) that are held by the Trust to earn rentals or for capital appreciation or both.

The Trust's investment property are measured at fair value. The Trust holds five investment property being office and residential buildings in Lagos, Abuja and Aba. The buildings are as listed below:

| **Property** | **Abebe Court, Ikoyi** | **VMP I, Victoria Island** | **VMP II, Victoria Island** | **UAC Commercial Complex, Abuja** | **No 1 -2 Factory Road, Aba** | **Total** |
|---|---|---|---|---|---|---|
| **State** | **Lagos** | **Lagos** | **Lagos** | **FCT Abuja** | **Abia** | |
| | **N'000** | **N'000** | **N'000** | **N'000** | **N'000** | **N'000** |
| Beginning balance | 4,135,120 | 8,724,450 | 8,346,383 | 1,482,510 | 740,100 | **23,428,563** |
| Improvement | | 84,777 | | | | **84,777** |
| Unrealised fair value gain/(loss) recognised in the statement comprehensive income | 111,880 | (83,427) | 290,317 | 490 | 37,150 | **356,410** |
| Fair value at 31 December 2017 | **4,247,000** | **8,725,800** | **8,636,700** | **1,483,000** | **777,250** | **23,869,750** |

**Valuation Process**

The fair value is based on valuation prepared by professional valuers who holds 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 professional valuer engaged for the preparation of the valuation reports are JOE AKHIGBE & ASSOCIATES, FRCN number (FRC/2012/NIESV/00000000292) and STEVE AKHIGBEMIDU & CO, FRCN number (FRC/2013/NIESV/00000001442). The same valuers were used in 2016.

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:

- verifiy all major inputs to the independent valuation report;
- assess property valuation method used and movements when compared to the prior year valuation report;
- hold 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 property.

- 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 two flats in the property. This prices were analysed and compared with the prevailing market prices of similar property 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 property are income generating and there are evidence of current rentals earned on the property

Depreciated Replacement Cost Method of valuation. This method assumes that a prospective buyer would be prepared to pay for the accommodation provided by reference to what it would cost him to provide similar accommodation elsewhere. This involves estimating the current replacement cost of the buildings and other improvements on the site in today's market. This method was adopted for 1 - 2 Factory road, Aba because it seems the most appropriate to the condition and use of the property.

**Investment property and valuation methods and assumptions used**

| **Property**<br>**State** | **Abebe Court, Ikoyi**<br>**Lagos**<br>**N'000** | **VMP I, Victoria Island**<br>**Lagos**<br>**N'000** | **VMP II, Victoria Island**<br>**Lagos**<br>**N'000** | **UAC Commercial Complex,**<br>**FCT Abuja**<br>**N'000** | **No 1 -2 Factory Road, Aba**<br>**Abia**<br>**N'000** |
|---|---|---|---|---|---|
| Valuation method | Market value | Investment / Income capitalisation | Investment / Income capitalisation | Investment / Income capitalisation | Depreciation replacement cost method |
| Reasons for method used | Availability of evidence of recent sale | Available rental income | Available rental income | Available rental income | No comparable rent in the environment |
| Assumptions used on income capitalisation method | | | | | |
| Number of years | N/A | Unexpired lease in the property is 87yrs | Unexpired lease in the property is 87yrs | Unexpired lease in the property is 71yrs | Unexpired lease in the property is 81yrs |
| Rate of outgoing (deduction for repairs & maintenance) | | 8.5% | 13.5% | 16% | |

**Fair value hierarchy of investment property is shown below**

**At 31 December 2017 (N'000)**

| | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|
| Investment property: | | | |
| - Abebe Court, Ikoyi, Lagos | 4,247,000 | - | 4,247,000 |
| - VMP I, Victoria Island, Lagos | - | 8,725,800 | 8,725,800 |
| - VMP II, Victoria Island, Lagos | - | 8,636,700 | 8,636,700 |
| - UAC Commercial Complex, Abuja | - | 1,483,000 | 1,483,000 |
| - No 1 -2 Factory Road, Aba | - | 777,250 | 777,250 |
| | 4,247,000 | 19,622,750 | 23,869,750 |

**At 31 December 2016 (N'000)**

| | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|
| Investment property: | | | |
| - Abebe Court, Ikoyi, Lagos | 4,135,120 | - | 4,135,120 |
| - VMP I, Victoria Island, Lagos | - | 8,724,450 | 8,724,450 |
| - VMP II, Victoria Island, Lagos | - | 8,346,383 | 8,346,383 |
| - UAC Commercial Complex, Abuja | - | 1,482,510 | 1,482,510 |
| - No 1 -2 Factory Road, Aba | - | 740,100 | 740,100 |
| | 4,135,120 | 19,293,443 | 23,428,563 |

**Sensitivity Analysis of property on level 3:**

Below is the sensitivity analysis of changes in parameter used in the valuation of the investment property. This shows the effect on the valuation if there is a plus or minus 0.50% in the valuation table scale used for the purpose of the valuation.

| property: | **Abebe Court, Ikoyi Lagos** | **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 | Market value | Income capitalisation | Income capitalisation | Income capitalisation | Depreciation replacement cost method |
| Sensitivity Analysis: | +/- 5% of Market Value | +/- 0.5% on capitalisation rate | +/- 0.5% on capitalisation rate | +/- 0.5% on capitalisation rate | +/- 5% of Depreciation rate |
| Impact of increase in valuation scale/rate | (212,350) | (727,148) | (653,241) | (123,607) | (38,863) |
| Impact of decrease in valuation scale/rate | 212,350 | 872,577 | 772,012 | 148,329 | 38,863 |

**5 Segment information**

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns different from those of segments operating in other economic environments.The Trust operates only one line of business, which is investing in real estate assets  and other liquid assets to earn rentals or for capital appreciation or both in line with its Trust Deed. For this reason, the Fund Manager do not consider it necessary to report the Trust's operations by both business and geographical segments.

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| | **₦'000** | ₦'000 |
| **6 Income from investment property** | | |
| Rental Income | **1,124,723** | 1,104,033 |
| | **1,124,723** | 1,104,033 |
| **7 Interest income** | | |
| Placements with banks | **7,434** | 12,851 |
| Corporate bonds | **96,725** | 47,207 |
| Treasury bills | **914,991** | 591,974 |
| Loans to investee company | **111,889** | 98,240 |
| | **1,131,039** | 750,272 |
| **8 Net gain/(loss) on financial assets held for trading** | | |
| Treasury bill trading income | **30,090** | 1,792 |
| Fair value gain/(loss) on held for trading instruments | **49,606** | (99,958) |
| | **79,696** | (98,166) |
| **9 Net gain on financial assets at fair value through profit or loss** | | |
| Fair value gain on James Pinnock investment | **185,221** | 85,369 |
| Fair value loss on First Festival Mall investment | **(324,695)** | 207,212 |
| | **(139,474)** | 292,580 |
| **10 Other income** | | |
| Reversal of withholding tax written-off | **82,575** | - |
| Others | **2,810** | - |
| | **85,385** | - |
| **11 Operating expenses** | | |
| Fund manager's fee | **109,467** | 112,545 |
| Property maintenance expenses | **133,879** | 73,862 |
| Registrar's fees | **1,889** | 125 |
| Trustees' fees | **4,400** | 2,200 |
| Audit fees | **6,600** | 6,000 |
| Professional fees | **44,799** | 43,821 |
| Custodian fees | **21,934** | 22,367 |
| AGM Expenses | **6,362** | 1,265 |
| Printing, advert and travels | **454** | 2,382 |
| Property manager's fees | **33,113** | 31,174 |
| Insurance premium | **9,477** | 8,099 |
| Depreciation(see note 17) | **53,133** | 23,414 |
| Other operating expenses | **3,925** | 4,689 |
| | **429,432** | 331,943 |

**12 Bank balances**

| | | |
|---|---|---|
| Placements with banks | **455,580** | 7,307 |
| Current | **455,580** | 7,307 |

Placements with banks represents call placement with United Bank of Africa UBA) PLC.

| **13 Financial assets held for trading** | **31 December 2017 N'000** | 31 December 2016 N'000 |
|---|---|---|
| Treasury bills with maturity of 90 days or less | **1,232,262** | 1,462,808 |
| Treasury bills with maturity above 90 days | **3,051,866** | 3,440,173 |
| Corporate bonds | **574,738** | 581,534 |
| | **4,858,866** | 5,484,515 |
| Current | **4,284,128** | 4,902,981 |
| Non-Current | **574,738** | 581,534 |
| | **4,858,866** | 5,484,515 |

**14 Financial assets at fair value through profit or loss**

| | | |
|---|---|---|
| - Investment in First Festival Mall (Note 14.1) | **925,065** | 1,052,740 |
| - Investment in real estate development (James Pinnock Estate) (Note 14.2) | **1,091,903** | 1,632,205 |
| | **2,016,968** | 2,684,945 |
| **14.1** Analysis of investment in First Festival Mall: | | |
| Opening balance | **1,052,740** | 694,600 |
| Additional investment | **85,132** | - |
| Interest income on loans (Note 7) | **111,889** | 222,129 |
| Fair value (loss)/gain (Note 8) | **(324,695)** | 136,011 |
| | **925,065** | 1,052,740 |
| **14.2** Analysis of investment in James Pinnock Estate: | | |
| Opening balance | **1,632,205** | 1,475,635 |
| Repayment during the year | **(725,523)** | - |
| Fair value gain (Note 9) | **185,221** | 156,570 |
| | **1,091,903** | 1,632,205 |
| Current | **1,091,903** | 1,632,205 |
| Non-Current | **925,065** | 1,052,740 |
| | **2,016,968** | 2,684,945 |

**15 Investment property**

| | | |
|---|---|---|
| Beginning balance | **23,428,563** | 23,633,200 |
| Improvement | **84,777** | - |
| Fair value gain/(loss) | **356,410** | (204,637) |
| | **23,869,750** | 23,428,563 |
| Non-Current | **23,869,750** | 23,428,563 |

Details of the investment property is in note 4.4.

| | 31 December 2017 N'000 | 31 December 2016 N'000 |
|---|---|---|
| **16 Other assets** | | |
| Financial: | | |
| Rent receivables | **19,537** | 61,722 |
| Receivable from property manager | **129,005** | 165,151 |
| | **148,542** | 226,873 |
| Non financial: | | |
| Prepaid expenses | **8,145** | 31,772 |
| Other Receivables | **501** | - |
| | **8,646** | 31,772 |
| | **157,188** | 258,645 |
| Current | **157,188** | 93,494 |
| Non-Current | **-** | 165,151 |
| | **157,188** | 258,645 |

| **17 Property and equipment** | **31 December 2017 N'000** | 31 December 2016 N'000 |
|---|---|---|
| **Cost** | | |
| At 1 January | **150,065** | - |
| Additions | **16,000** | 150,065 |
| At 31 December | **166,065** | 150,065 |
| **Accumulated depreciation** | | |
| At 1 January | **23,414** | - |
| Charge for the year | **53,133** | 23,414 |
| At 31 December | **76,547** | 23,414 |
| **Net book amount at 1 January** | **126,651** | - |
| **Net book amount at 31 December** | **89,518** | 126,651 |

**18 Other liabilities**

| | | |
|---|---|---|
| **Financial liabilities:** | | |
| Fund manager's fee payable | **25,953** | 27,832 |
| Custodian fees payable | **10,929** | 5,761 |
| Dividend payable | **1,886** | 1,886 |
| Accrued expenses | **11,499** | 63,353 |
| | **50,267** | 98,832 |
| **Non financial Liabilities** | | |
| VAT payable | **3,296** | 3,050 |
| | **3,296** | 3,050 |
| | **53,563** | 101,882 |
| Current | **53,563** | 101,882 |

| | 31 December 2017 N'000 | 31 December 2016 N'000 |
|---|---|---|
| **19 Rent received in advance** | | |
| Rent received in advance | **155,569** | 1,036,993 |
| | **155,569** | 1,036,993 |
| Current | **127,707** | 977,370 |
| Non-Current | **27,862** | 59,623 |
| | **155,569** | 1,036,993 |

**20 Unit holders' contribution**

| | | |
|---|---|---|
| **Authorised** | | |
| 3,000,000,000 units of N10 each | **30,000,000** | 30,000,000 |
| **Issued and fully paid** | | |
| 2,668,269,500 units of N10 each | **26,682,695** | 26,682,695 |

| | Notes | 31 December 2017 ₦'000 | N'000 31 December 2016 ₦'000 |
|---|---|---|---|
| **21 Cash generated from operations** | | | |
| Reconciliation of profit after tax to cash generated from operations: | | | |
| Profit after tax | | **2,208,347** | 1,512,139 |
| Adjustment for: | | | |
| – Fair value (gain)/loss on investment property | 15 | **(356,410)** | 204,637 |
| – Depreciation (note 17) | | **53,133** | 23,414 |
| – Fair value (gain)/loss on financial assets held for trading | 8 | **(49,606)** | 99,958 |
| – Fair value loss/(gain) on financial assets at fair value through profit or loss | 9 | **139,474** | (292,580) |
| – Net interest income | 7 | **(1,131,039)** | (750,272) |
| Changes in working capital: | | | |
| – Financial instruments held for trading | | **44,549** | (153,162) |
| –Other assets | | **101,457** | (4,092) |
| –Account payables | | **(48,319)** | (5,804) |
| –Rent received in advance | | **(881,424)** | (782,185) |
| Cash generated from /(used in) operations | | **80,162** | (147,947) |

**22 Cash and cash equivalents**

For purposes of the cash flow statement, cash and cash equivalents comprises:

| | | |
|---|---|---|
| - Treasury bills | **809,414** | 1,462,808 |
| - Placements with banks (Note 12) | **455,580** | 7,307 |
| | **1,264,994** | 1,470,115 |

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 Trust became a party to the instrument.

**23 Related party transactions**

The Trust 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 is a co-subsidairy with FSDH Securities Limited, a company engaged in stockbroking activities.

During the period, the following related party activities occurred:

| Entity | Relationship | Type of transaction | 2017 balance N'000 | 2016 balance N'000 |
|---|---|---|---|---|
| FSDH Asset Management | Fund manager | Management fee | 109,467 | 112,545 |
| UACN Property Development Company Plc | Property manager | Property management fee | 33,113 | 31,174 |
| First Festival Mall Limited | Investee | Shareholder Loan to investee | 925,065 | 1,052,740 |
| First Festival Mall Limited | Investee | Interest income on loan to investee | 111,889 | 98,240 |
| UBA Trustees Limited | Trustee | Trustee fee | 2,200 | 1,100 |
| FBN Trustees Limited | Trustee | Trustee fee | 2,200 | 1,100 |

Key management staff has been defined as members of management staff of the Fund Manager and its other related companies. No compensation was paid to key management staff during the period (December 2016: Nil).

**Units held by related parties to the Trust are listed below:**

| | **31 December 2017 Units N'000** | 31 December 2016 Units N'000 |
|---|---|---|
| Direct - UPDC | **1,648,915** | 1,661,730 |
| Indirect | - | - |
| Mr. Hakeem Ogunniran | **1,000** | 1,000 |
| Mrs. Folashade Ogunde | **400** | 400 |
| Mrs. Hamda A. Ambah | **50** | 50 |
| Mrs. Halima  Alao | **20** | 20 |
| Mrs. Niun Taiwo | **20** | 20 |

**24 Earnings per unit**

(i) Basic

Basic earnings per unit is calculated by dividing the net profit after tax attributable to the unit holders of the Trust by the number of units in issue during the period.

| | **31 December 2017** | 31 December 2016 |
|---|---|---|
| Profit after tax attributable to unit holders of the Trust (N'000) | **2,208,347** | 1,512,139 |
| Number of ordinary units in issue (000) | **2,668,270** | 2,668,270 |
| Basic earnings per unit (expressed in Naira per share) | **0.83** | 0.57 |

(ii) Diluted

The Trust 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 unit (expressed in Naira per share) | **0.83** | 0.57 |

## 25 Distributions

| | **31 December 2017 ₦'000** | 31 December 2016 ₦'000 |
|---|---|---|
| Proposed distribution | **1,399,344** | 2,329,173 |

In line with the provisions of the Trust Deed, minimum of 90% of the Trust's distributable income will be distributed to unit holders at the end of every financial year. Distributable income represents the "profit after tax" less unrealised fair value gain on investment property plus realised gain on disposed investment property.

Final distributions are not accounted for until they have been ratified at the Annual General Meeting (AGM) of the unit holders. Interim distribution was approved by the Joint Trustees. Interim distribution of 44 Kobo (December 2016 was 23 Kobo) per share totalling N1.17billion (Dec 2016 was N613.7million) was paid for the nine months ended 30 September 2017 while 19 Kobo totalling N517.53million (Dec 2016 was N579.66million) is being proposed as final distribution for the year ended 31 December 2017.

The proposed final distribution of 19 kobo will be accounted for, as an appropriation of retained earnings in the year ending 31 December 2018.

| **Reconciliation of distribution** | **₦'000** | ₦'000 |
|---|---|---|
| Profit after tax | **2,208,347** | 1,512,139 |
| Less interest on investee loan - First Festival Mall Limited | **(111,889)** | (98,240) |
| Less fair value gain on assets at fair value through profit or loss | **(185,221)** | (292,580) |
| Fair value (gain)/loss on investment property | **(356,410)** | 204,637 |
| Distributable income | **1,554,827** | 1,325,956 |
| Proposed distribution at 90% of distributable income | **1,399,344** | 1,193,360 |
| | | |
| Interim distribution paid | **1,174,039** | 613,702 |
| Distribution proposed | **225,306** | 579,658 |
| Total distribution | **1,399,344** | 1,193,360 |
| | | |
| Interim distribution paid per unit (Naira) | **0.44** | 0.23 |
| Distribution proposed per unit (Naira) | **0.08** | 0.22 |
| Total distribution per unit (Naira) | **0.52** | 0.45 |

## 26 Events after statement of financial position date

There were no events subsequent to the financial position date which require adjustments to, or disclosure in these financial statements.

## 27 Capital commitments

The Trust had no capital commitments as at end of the period ended 31 December 2017 (31 December 2016: Nil). However, the Trust may be required to provide additional funding on a prorata basis to the James Pinnock Estate development where required.

## 28 Contingent liabilities

The Trust had no contingent liabilities as at end of the period ended 31 December 2017 (31 December 2016: Nil).

**UPDC REAL ESTATE INVESTMENT TRUST**
**OTHER NATIONAL DISCLOSURES**
**FOR YEAR ENDED 31 DECEMBER 2017**

| | Dec 2017 ₦'000 | % | Dec 2016 ₦'000 | % |
|---|---|---|---|---|
| Gross income | **2,637,779** | 114 | 1,844,082 | 114 |
| Bought-in-materials and services (local) | **(319,965)** | (14) | (219,398) | (14) |
| **Value added** | **2,317,814** | 100 | 1,624,684 | 100 |
| **Distribution of value added:** | | | | |
| **To Government:** | | | | |
| Tax | **-** | - | - | - |
| **To Fund Manager:** | | | | |
| Fund manager's fee | **109,467** | 5 | 112,545 | 7 |
| **Retained in the fund:** | | | | |
| Retained earnings | **2,208,347** | 95 | 1,512,139 | 93 |
| | **2,317,814** | **100** | **1,624,684** | **100** |

**UPDC REAL ESTATE INVESTMENT TRUST**
**OTHER NATIONAL DISCLOSURES**
**FOR YEAR ENDED 31 DECEMBER 2017**

| | Dec 2017 | Dec 2016 | Dec 2015 | 19 months to Dec 2014 |
|---|---|---|---|---|
| | **₦'000** | ₦'000 | ₦'000 | ₦'000 |
| **ASSETS** | | | | |
| Bank balances | **455,580** | 7,307 | 2,799,647 | 72,889 |
| Financial assets held for trading | **4,858,866** | 5,484,515 | 3,992,646 | 6,422,138 |
| Financial assets at fair value through profit or loss | **2,016,968** | 2,684,945 | 2,294,124 | 694,600 |
| Investment property | **23,869,750** | 23,428,563 | 23,633,200 | 23,708,000 |
| Other assets | **157,188** | 258,645 | 254,553 | 29,460 |
| Property and equipments | **89,518** | 126,651.25 | - | - |
| **TOTAL ASSETS** | **31,447,870** | 31,990,626 | 32,974,170 | 30,927,087 |
| **LIABILITIES** | | | | |
| Other liabilities | **209,132** | 1,138,875 | 1,926,864 | 894,788 |
| **Net assets attributable to unitholders** | **31,238,738** | 30,851,751 | 31,047,306 | 30,032,299 |
| **Represented by:** | | | | |
| Unit holders' contributions | **26,682,695** | 26,682,695 | 26,682,695 | 26,682,695 |
| Retained earnings | **4,556,043** | 4,169,056 | 4,364,611 | 3,349,604 |
| | **31,238,738** | 30,851,751 | 31,047,306 | 30,032,299 |
| Income from investment property | **1,124,723** | 1,104,033 | 1,605,526 | 1,979,057 |
| Interest income | **1,131,039** | 750,272 | 1,261,700 | 1,390,874 |
| Net (loss)/gain on financial assets held for trading | **79,696** | (98,166) | 90,065 | (7,506) |
| Net (loss)/gain on financial assets at fair value through profit o | **(139,474)** | 292,580 | - | - |
| Other income | **85,385** | - | 12,244 | 69,235 |
| Fair value gain on investment property | **356,410** | (204,637) | 385,200 | 2,255,865 |
| Operating expenses | **(429,432)** | (331,943) | (282,634) | (843,690) |
| | **2,208,347** | 1,512,139 | 3,072,101 | 4,843,835 |
| Tax | **-** | - | (82,575) | - |
| | **2,208,347** | 1,512,139 | 2,989,526 | 4,843,835 |