ANNUAL REPORT & ACCOUNTS

for the year ended 31 December 2016

UK Commercial Property Trust

CONTENTS

COMPANY SUMMARY

An overview

The Company

UK Commercial Property Trust Limited ("the Company") is an authorised closed ended, Guernsey registered investment company which was launched on 22 September 2006.

The Company has a single class of share in issue, which is premium listed on the official list and traded on the London Stock Exchange.

The Company has an indefinite life, subject to periodic continuation votes, and was incorporated on 24 August 2006. The next periodic continuation vote is scheduled for the first quarter of 2020.

The Group

The Group consists of the Company and its subsidiaries.

The subsidiaries are disclosed in note 10 to the audited financial statements and include; UK Commercial Property Finance Holdings Limited (UKCPFH), UK Commercial Property Holdings Limited (UKCPH), UK Commercial Property GP Limited (the GP), UK Commercial Property Nominee Limited (UKCPN), UK Commercial Property Estates Holdings Limited (UKCPEH) and UK Commercial Property Estates Limited (UKCPEL) and are incorporated in Guernsey. Brixton Radlett Property Limited (BRPL) is a company incorporated in the UK. The principal business of UKCPFH, UKCPEL, BRPL and the GP are that of an investment and property company. The principal business of UKCPN is that of a nominee company. The principal business of UKCPFH and UKCPEH are that of a holding company.

The limited partnership, UKCPT Limited Partnership, ("the GLP") is a Guernsey limited partnership. UKCPH and the GP have a partnership interest of 99 and 1 per cent respectively in this entity.

The GP is the general partner and UKCPH is a limited partner of the GLP. The limited partnership's principal business is that of an investment and property entity.

Objectives

The investment objective of the Company is to provide ordinary shareholders with an attractive level of income together with the potential for capital and income growth from investing in a diversified portfolio of UK commercial properties. The investment policy of the Company is set out on page 11.

Management

Standard Life Investments (Corporate Funds) Limited is the Investment Manager of the Group.

Further details of the management contract are provided in the Notes to the Accounts.

ISA Status

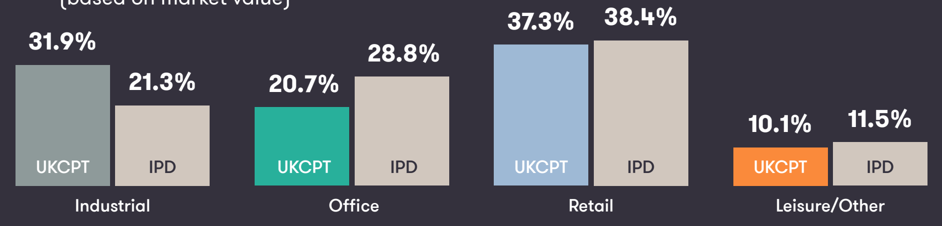
The Company's shares are eligible for ISA investment.

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the action you should take, you are recommended to seek your own independent financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 if you are in the United Kingdom or, if not, from another appropriately authorised financial adviser. If you have sold or otherwise transferred all your ordinary shares in UK Commercial Property Trust Limited, please forward this document, together with the accompanying documents, immediately to the purchaser or transferee, or to the stockbroker bank or agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

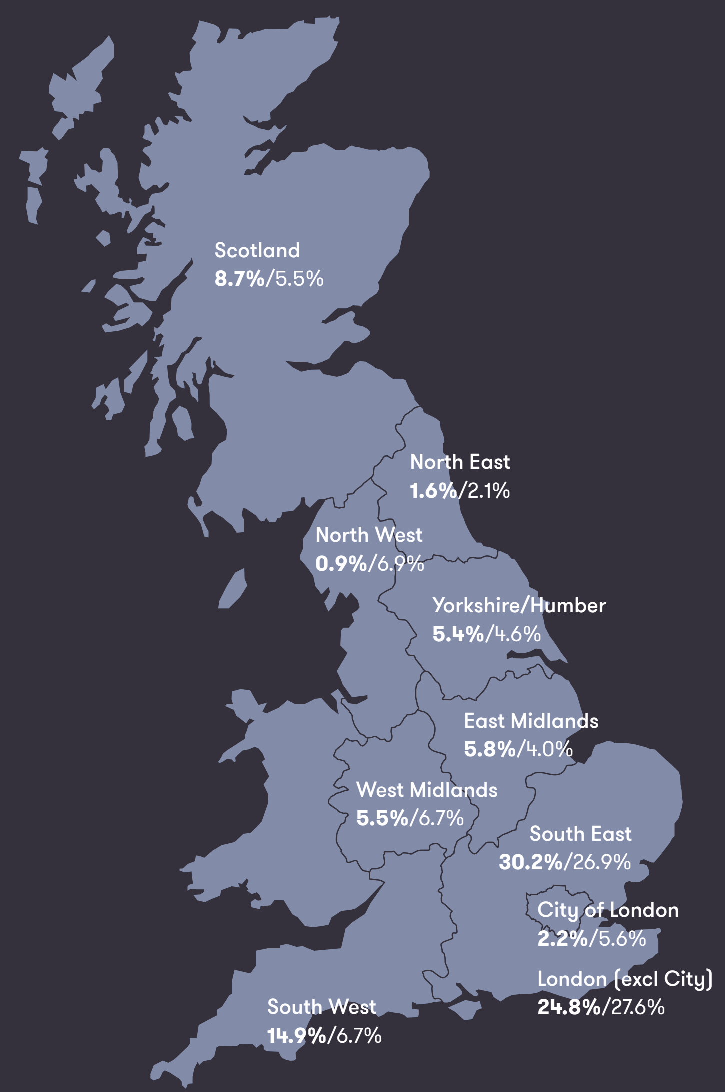
www.ukcpt.co.uk

UKCPT PORTFOLIO IN NUMBERS
AS AT 31 DECEMBER 2016

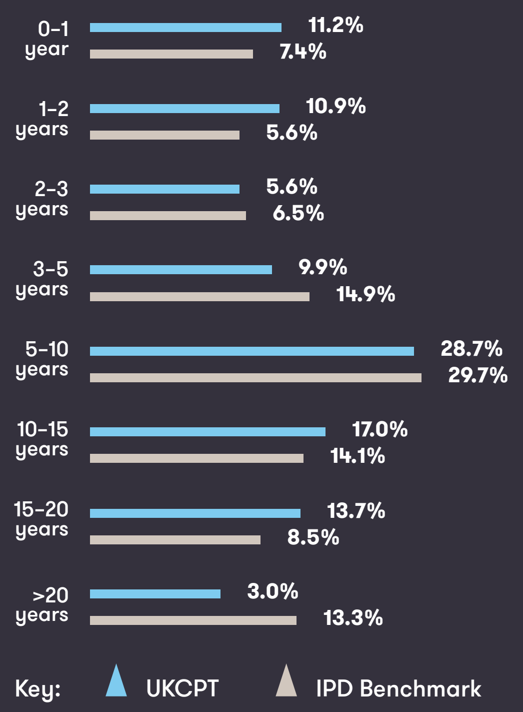
1 SECTOR SPLIT VS IPD BENCHMARK
(based on market value)



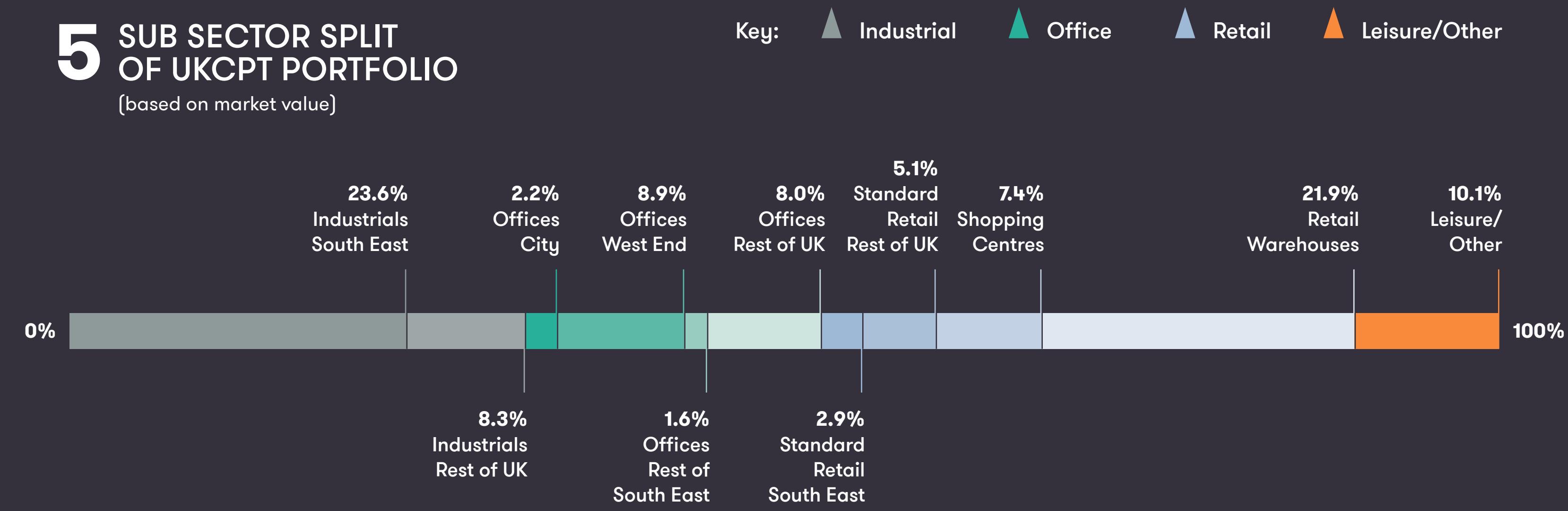
2 GEOGRAPHIC SPLIT vs IPD BENCHMARK
Key: **UKCPT**/IPD Benchmark



3 LEASE EXPIRY PROFILE

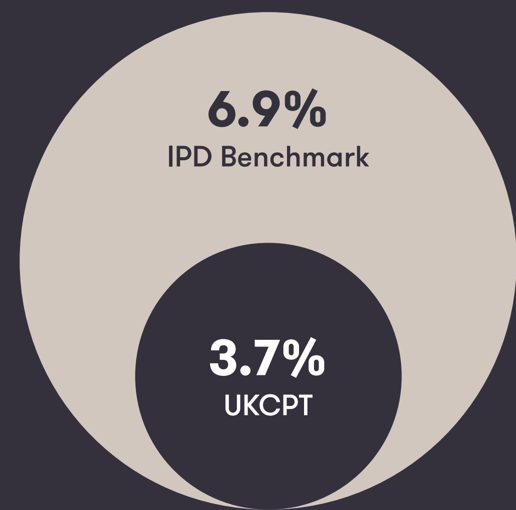


5 SUB SECTOR SPLIT OF UKCPT PORTFOLIO
(based on market value)



6 NO OF PROPERTIES, TENANCIES AND AVERAGE PROPERTY VALUE

7 OVERALL VOID RATE
(based on ERV)



4 TOP 10 TENANTS BY RENT

Company	CINEWORLD GROUP PLC	TOTAL E&P UK LIMITED	ODEON CINEMAS LIMITED	DSG RETAIL LIMITED	MARKS & SPENCER PLC	SAINSBURY'S including Argos	OCADO LIMITED	SONY	PUBLIC SECTOR	B&Q
Primary sector	Leisure	Industrial	Leisure	Retail Warehouse	Industrial	Retail Warehouse	Industrial	Office	Office	Retail Warehouse
% of Passing rent	2.5%	2.7%	2.7%	2.9%	3.1%	3.8%	3.9%	4.6%	4.8%	5.8%
IPD Risk band	Negligible	Negligible	Low	Negligible	Negligible	Negligible	Low	Negligible	Negligible	Negligible

81/85 GEORGE STREET
Edinburgh

Strategic Report

UK Commercial Property Trust

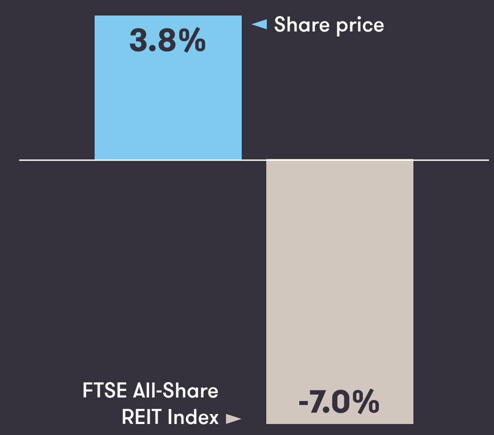
FINANCIAL HIGHLIGHTS

NAV TOTAL RETURN*
NAV total return of 3.8% — Robust return set against a background of volatility in the property market

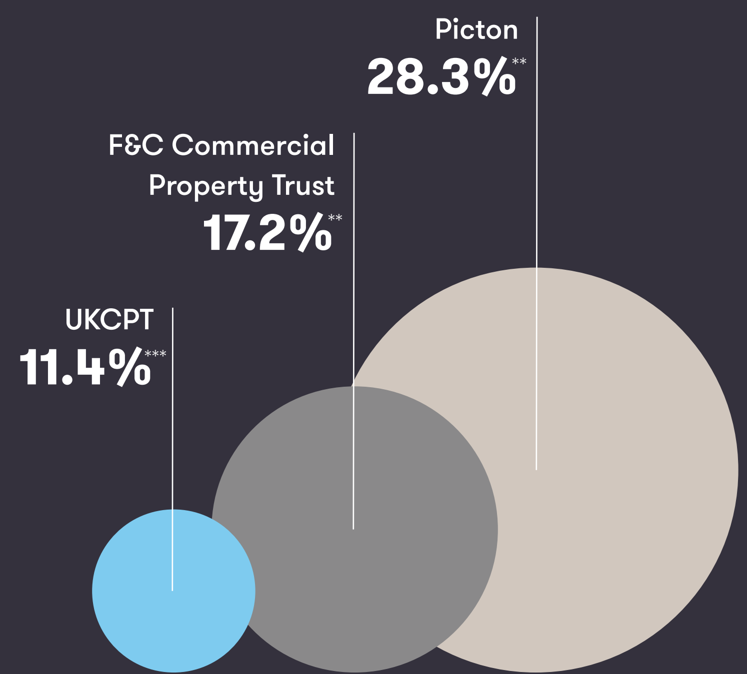
3.8%
NAV total return

* See Alternative Performance Measures on page 86

SHARE PRICE TOTAL RETURN
Share price total return of 3.8% which compares favourably to the FTSE All-Share REIT Index total return of -7.0%

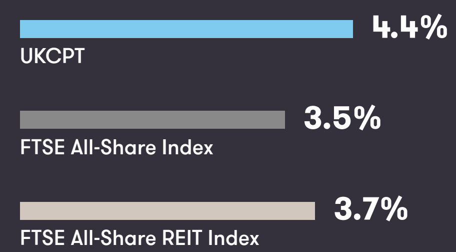


NET GEARING
Net gearing of 11.4%, one of the lowest in the Company's peer group



** As of 31 December 2016 *** As defined in the Performance Summary on page 6

DIVIDEND YIELD
Attractive Dividend yield of 4.4% v FTSE All-Share Index yield of 3.5% and FTSE All-Share REIT Index yield of 3.7%



DAILY LIQUIDITY
On average 2 million shares were traded daily in the year to 31 December 2016

An average of
2m
Shares traded daily

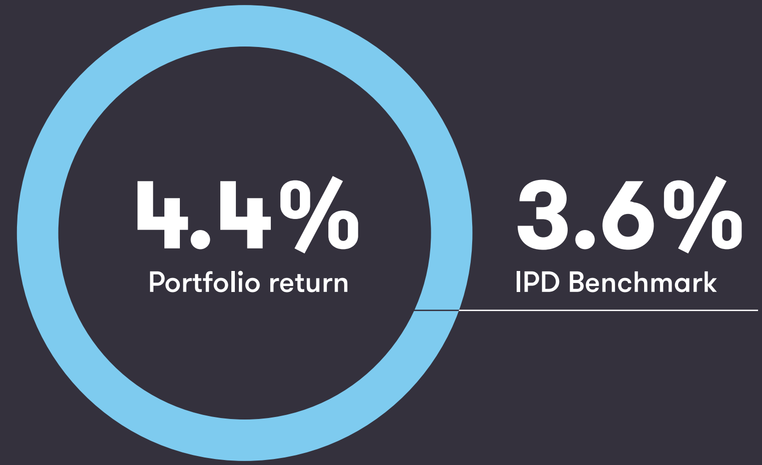
£75m
Available for investment

AVAILABLE FOR INVESTMENT
Significant uncommitted cash resources available for investment of £75 million at year end

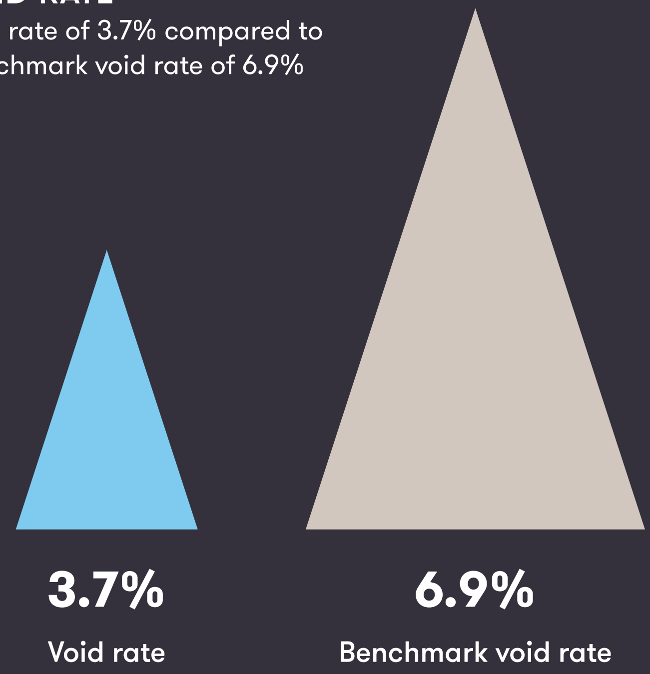
PORTFOLIO HIGHLIGHTS

PORTFOLIO TOTAL RETURN*
Above benchmark portfolio total return of 4.4% v IPD benchmark return of 3.6%

* See Alternative Performance Measures on page 86



VOID RATE
Void rate of 3.7% compared to benchmark void rate of 6.9%



RENT COLLECTION
99% of rent collected within 21 days underlining strength of tenant base

99%
of rent collected within 21 days

PORTFOLIO VALUE
£1.3 billion good quality/prime diversified commercial portfolio

PORTFOLIO YIELD
Portfolio yield of 4.9% with reversionary yield of 5.8% highlighting reversionary nature of portfolio

£1.3bn
Portfolio value

PERFORMANCE SUMMARY

	31 December 2016	31 December 2015	% Change
CAPITAL VALUES AND GEARING			
Total assets less current liabilities (excl bank loan & swap) £'000	1,372,926	1,375,032	(0.2)
Net asset value per share (p)	86.2	86.7	(0.6)
Ordinary share price (p)	84.5	85.25	(0.9)
Discount to net asset value (%)	(2.0)	(1.7)	n/a
Gearing (%) — Net*	11.4	13.4	n/a
Gearing (%) — Gross**	18.2	18.2	n/a

	1 year % return	3 year % return	5 year % return
TOTAL RETURN			
NAV†	3.8	35.5	51.9
Share Price†	3.8	26.0	62.4
MSCI IPD Balanced Monthly and Quarterly Funds Benchmark	3.6	37.2	55.5
FTSE All-Share Real Estate Investment Trusts Index	-7.0	27.3	98.8
FTSE All-Share Index	16.8	19.3	61.8

	31 December 2016	31 December 2015
EARNINGS AND DIVIDENDS		
Earnings per share	3.48	6.74
Dividends declared per ordinary share (p)	3.68	3.68
Dividend Yield (%)‡	4.4	4.3
IPD Benchmark Yield (%)	5.1	5.0
FTSE All-Share Real Estate Investment Trusts Index Yield (%)	3.7	3.0
FTSE All-Share Index Yield (%)	3.5	3.7
ONGOING CHARGES AND VOID RATE		
As a % of average net assets including direct property costs	1.4	1.5
As a % of average net assets excluding direct property costs	0.9	0.9
Void (%)	3.7	2.8

* Calculated as net borrowings (gross borrowings less cash, excl swap valuation) divided by total assets less current liabilities (excl cash, borrowing and swaps). See alternative performance measures on page 86 for further details.

** Calculated as gross borrowings (excl swap valuation) divided by total assets less current liabilities (excl borrowing and swaps).

† Assumes re-investment of dividends excluding transaction costs.

‡ Based on an annual dividend of 3.68p and the share price at 31 December.

Sources: Standard Life Investments, MSCI Investment Property Databank ("IPD")

Our financial position remains strong and, over the course of the year, our portfolio initiatives have added value and driven income to support an attractive level of dividend.

3.8%

NAV total return for the year of 3.8%

11.4%

Low net gearing of 11.4% as at 31 December 2016

£1.3bn

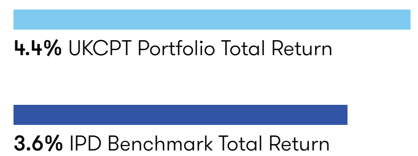
Our portfolio is now valued at £1.3 billion

"The business is in a robust position and I am pleased to report that the shift in strategy adopted a couple of years ago of reducing the portfolio's retail weighting and increasing its industrial exposure has begun to bear fruit, with encouraging relative performance.

Andrew Wilson
Chairman

2016 was a positive and progressive year for UKCPT, and this momentum has continued into 2017. Despite a year of political surprises and associated uncertainty, the business is in a robust position and I am pleased to report that the shift in strategy adopted a couple of years ago of reducing the portfolio's retail weighting and increasing its industrial exposure has begun to bear fruit, with encouraging relative performance. Our financial position remains strong and, over the course of the year, our portfolio initiatives have added value and driven income to support an attractive level of dividend for shareholders. Furthermore, I am pleased to note that we have an overwhelmingly supportive shareholder base, as evidenced by the successful passing of the Company's continuation vote, held in November 2016.

PORTFOLIO PERFORMANCE



The Company's portfolio produced a total return of 4.4% in the year, well ahead of the IPD benchmark of 3.6%. As expected, the property market continued to slow during the year, particularly in the third quarter as the ramifications of the UK's EU referendum result were digested. Against this backdrop, we achieved an above benchmark return through the successful implementation of a number of asset management initiatives across the Company's £1.28 billion portfolio, as well as through net asset value ("NAV") enhancing sales at Arlington Street, London and Sunbury, Surrey. Just after the year end we announced that we had completed a further NAV accretive disposal, with the sale of an office asset at 13 Great Marlborough Street, London followed shortly thereafter with the recycling of capital into the purchase of a higher yielding opportunity at Burton upon Trent. This acquisition of a pre-let development, due to be completed later this year, secures longer term income in our favoured industrial sector.

This positive portfolio activity underpinned a NAV total return for the year of 3.8%. While this, as for the property sector, was a slightly lower return than seen in previous years, it nonetheless demonstrates the strong defensive qualities of UKCPT, as well as being a positive reflection of the portfolio restructuring that has taken place over the past couple of years. This strong performance was delivered despite pressures on the property sector following a write down in values when the government increased stamp duty in the first half of 2016 and market uncertainties resulting from the EU referendum, including the temporary "gating" of open ended property funds due to unprecedented redemption requests.

The total return to shareholders in 2016 was also 3.8%, with the year-end share price reflecting a 2% discount to the period end NAV. This total return compares favourably to the FTSE All-Share REIT Index of minus 7.0%, and again demonstrates the relative attractiveness of UKCPT, which has a portfolio of 42, well-let properties, with low voids and an excellent history of prompt rent collection, and which is diversified by geography and sector. This, combined with a strong balance sheet, cash resources for further investment, low gearing and low long term borrowing rates, provides excellent foundations for attractive shareholder returns and compares favourably with many other quoted property companies.

Borrowings and Cash

UKCPT is financially well placed. As at 31 December 2016, the Company had low net gearing of 11.4% with a blended rate of interest of 2.89% and a weighted average debt maturity of six years and cash resources of £105 million. Following the transactions in early 2017 as outlined earlier, future capital expenditure and dividend commitments, £75 million is currently available for investment. The Company also has access to a £50 million revolving credit facility which remains undrawn and, therefore, has significant firepower to deploy in portfolio and acquisition opportunities in-line with the Company's investment policy. Additionally, in an environment where the prospect for further capital growth is under pressure, the Company's low gearing is a sensible defensive strategy.

Dividends

UKCPT declared and paid its shareholders an attractive dividend in 2016 as follows:

	Payment date (2016)	Dividend per share (p)
Fourth interim for prior period	Feb	0.92
First interim	May	0.92
Second interim	Aug	0.92
Third interim	Nov	0.92
TOTAL		**3.68**

A fourth interim dividend of 0.92p was paid on 28 February 2017. This annual dividend reflects a yield of 4.4% on the year end share price of 84.5p. It compares favourably to the yield on the FTSE All-Share REIT Index of 3.7% as well as the FTSE All-Share Index yield of 3.5% and the 10 year gilt yield of 1.2%. UKCPT continues to offer investors a sustainable income return underpinned by its well let and diverse portfolio of prime properties.

Ocado Distribution Unit
Hatfield

CHAIRMAN'S STATEMENT
Continued

I therefore believe that UKCPT is well positioned to meet the challenges ahead. The Board and the Manager together have an unerring focus on continuing to deliver value for shareholders.

Continuation Vote

UKCPT's discount control policy provides that if the market price of its ordinary shares is more than 5 per cent below the published NAV for a continuous period of at least 90 dealing days, following the second anniversary of the Company's most recent continuation vote in relation to the discount control policy, an extraordinary general meeting ("EGM") has to be convened. On 11 October 2016, with the discount to published NAV having been more than 5 per cent for more than 90 continuous days, an EGM was convened for 9 November 2016. This continuation vote was passed resoundingly with 99.99% of shareholders voting being in favour of continuation, on 76% turnout. The Company is not now required to have a continuation vote in relation to its discount control policy for another two years. This vote does not change the current policy on share buybacks, which is set out on page 37 of this report.

Base Erosion and Profit Shifting ("BEPS")

The Board has noted the announcement in the 2016 Autumn Statement relating to BEPS, including the ramifications for non UK resident property companies and the proposed restriction on interest deductions. Although legislation has not yet been finalised, the proposals as currently drafted are likely to mean that additional tax will have to be paid on the Company's net rental profits in the medium term. Therefore, the Board is exploring how shareholder value can be protected as far as practicable, including the possibility of joining the UK REIT regime.

Board Succession

Last year's annual report noted the Board's intention regarding a phased and orderly succession of its Directors. Therefore John Robertson, who has served on the Board since the launch of the Company in 2006, will retire in December 2017. Mr Robertson has been a major contributor to the Company over his tenure. His breadth and depth of knowledge, integrity and valuable insights will be very much missed. We wish him well on his retirement. Through its Nominations Committee, the Board has instigated a process to appoint a new Director to replace Mr John Robertson on his departure.

It is also my intention to stand down from the Board at the AGM in 2019. In due course a replacement Director will be appointed, with the Board as a whole deciding on a new Chairman nearer the time.

These changes, whilst continuing to refresh the Board, additionally respond to the Company's changing circumstances but without a sudden loss of invaluable knowledge and collective experience.

Investment Manager

The Board note the recent announcement relating to a proposed merger between Standard Life and Aberdeen Asset Management. It is too early to comment on the potential implications for the Company of the proposed merger and we will monitor the progress of the transaction closely.

Outlook

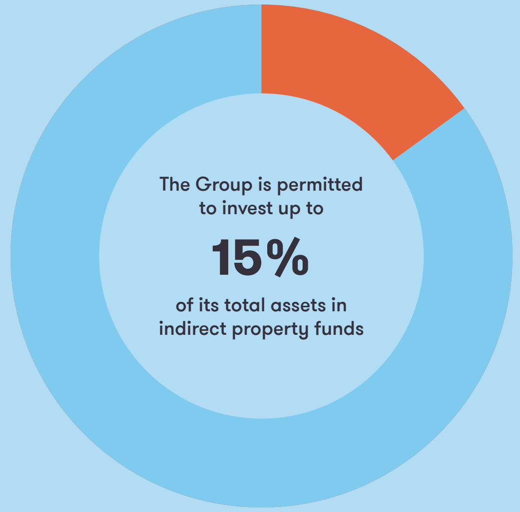
The political and therefore the economic outlook for 2017 is expected to be dominated by the Article 50 process for the UK to exit the European Union. Additionally, the possibility of changes in the political landscape elsewhere in the world is expected to command the headlines. Notwithstanding the strength of the UK economy since the EU referendum, and the Bank of England's recent upgrade of its GDP growth forecast for 2017 to 2%, the same as that achieved in 2016, there will continue to be uncertainty at home and abroad. Against this background, commercial UK real estate has many significant benefits as an asset class, not least its ability to produce an attractive and sustainable income stream against a backdrop of limited speculative development, generally low supply and modest gearing levels compared to previous cycles. These should help reduce potential volatility and there also remains a significant gap between the attractive and stable yields currently being earned on real estate and the returns from other mainstream asset classes.

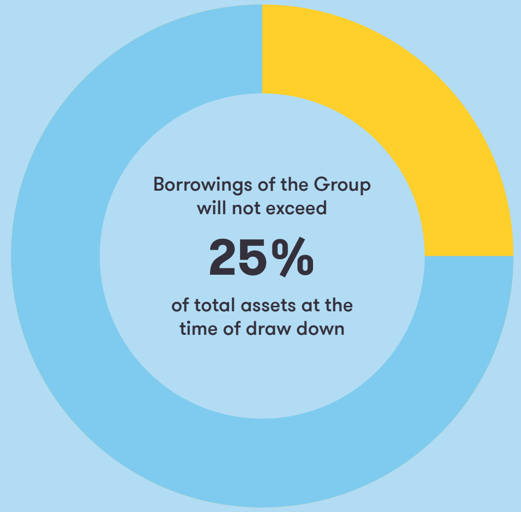
UKCPT is well placed not only in terms of the quality of its property portfolio but also its sound financial base. It has a strong exposure to the favoured industrial sector and limited exposure to potentially underperforming sectors, such as City of London offices, where only 2.2% of the portfolio (by capital value) is located. The Company offers an attractive and sustainable dividend yield, based on rental income from a portfolio with a strong tenant base as ranked by IPD. This is particularly relevant in an environment where interest rates are forecast to remain historically low, particularly in the UK, for sometime to come. The strong balance sheet and low gearing should help minimise volatility in an environment where property values are under pressure. It will also allow the Manager to invest further in the portfolio in order to extract latent value and to act quickly and flexibly should suitable opportunities arise.

I therefore believe that UKCPT is well positioned to meet the challenges ahead. The Board and the Manager together have an unerring focus on continuing to deliver value for shareholders.

Andrew Wilson
Chairman
19 April 2017

STRATEGIC OVERVIEW





The purpose of the Strategic Overview is to provide shareholders with details of the Company's strategy and business model, as well as the principal risks and uncertainties faced by the Company.

Investment Strategy

The Company's investment strategy is set out in its investment objective and policy below.

The Company's investment objective is to provide ordinary shareholders with an attractive level of income together with the potential for capital and income growth from investing in a diversified UK commercial property portfolio.

Investment risks to the Group are managed by investing in a diversified portfolio of freehold and long leasehold UK commercial properties. The Group invests in income producing assets in four commercial property sectors: office, retail, industrial and leisure. The Group has not set any maximum geographic exposures within the UK nor any maximum weighting limits in the principal property sectors. No single property shall, however, exceed at the time of acquisition 15 per cent of the gross assets of the Group.

The Group is currently permitted to invest up to 15 per cent of its total assets in indirect property funds including in other listed investment companies. The Group is permitted to invest cash, held by it for working capital purposes and awaiting investment, in cash deposits, gilts and money market funds.

At an EGM of the Company on 28 April 2011 the shareholders of the Company approved a revised gearing policy of the Group amended to read as follows: "Gearing, calculated as borrowings as a percentage of the Group's gross assets, may not exceed 65 per cent. The Board intends that borrowings of the Group at the time of draw down will not exceed 25 per cent of the Total Assets of the Group. The Board receives recommendations on gearing levels from the Investment Manager and is responsible for setting the gearing range within which the Investment Manager may operate".

The Group's performance in meeting its objective is measured against key performance indicators as set out below. A review of the Group's returns during the year, the position of the Group at the end of the year, and the outlook for the coming year is contained in the Chairman's Statement and the Investment Manager Review.

Board

The Board of Directors is responsible for the overall stewardship of the Company, including investment and dividend policies, corporate strategy, corporate governance, and risk management. Biographical details of the Directors, all of whom are non-executive, can be found on page 32–33 and indicate their range of property, investment, commercial and professional experience. The Company has no executive Directors or employees.

Management of Assets and Shareholder Value

The Board has contractually delegated the management of the investment portfolio and other services to Standard Life Investments (Corporate Funds) Limited.

The Company invests in properties which the Investment Manager believes will generate a combination of long-term growth in income and capital for shareholders. Investment decisions are based on analysis of, amongst other things, prospects for future capital growth, sector and geographic prospects, tenant covenant strength, lease length and initial yield. In the year to 31 December 2016 the company generated operating cash flows of £49.4m (2015: £53.6m)

Investment risks are spread through investing in a range of geographical areas and sectors, and through letting properties to low risk tenants. A list of all the properties held as at 31 December 2016 is contained on page 29 and further analysis can be found in the Investment Manager Review. At each Board meeting, the Board receives a detailed portfolio, financial, risk and shareholder presentation from the Investment Manager together with a comprehensive analysis of the performance of the portfolio during the reporting period.

The Board and the Investment Manager recognise the importance of managing the premium / discount of share price to net asset value in enhancing shareholder value. One aspect of this involves appropriate communication to gauge investor sentiment. The Investment Manager meets with current and potential new shareholders, and with stockbroking analysts who cover the investment company sector, on a regular basis. In addition, communication of quarterly portfolio information is provided through the Company's website, www.ukcpt.co.uk, and the Company also utilises a public relations agency to manage its profile among investors.

Borrowings

As at 31 December 2016 the Group had total borrowing facilities drawn of £250 million, representing a gross gearing level of 18.2% (net gearing 11.4%) of the year end total assets with a blended fixed interest rate of 2.89% per annum.

Key Performance Indicators

The Company's benchmark is the MSCI Investment Property Databank (IPD) Monthly and Quarterly Funds. This benchmark incorporates all monthly and quarterly valued property funds and the Board believes this is the most appropriate measure to compare the performance of a quarterly valued property investment Company with a balanced portfolio.

The Board uses a number of performance measures to assess the Company's success in meeting its objectives. The key performance indicators are as follows:

- Net asset value and share price total return against the IPD benchmark and other selected comparators.
- Premium/Discount of share price to net asset value.
- Dividend per share and dividend yield.
- Ongoing Charges.

These indicators for the year ended 31 December 2016 are set out on page 6.

In addition the Board considers specific property KPIs such as void rates, rent collection levels and weighted average lease length on a regular basis.

Principal Risks and Risk Uncertainties

The Board has established a Risk Committee to ensure that proper consideration of risk is undertaken in all aspects of the Company's business on a regular basis. The Risk Committee meets quarterly, comprises all members of the Board and is chaired by John Robertson. The duties of the Risk Committee include the consideration of matters relating to the risk profile of the Company, including an assessment of risk appetite, risk tolerance and risk strategy, and the regular review of principal risks, seeking assurance that these risks are appropriately rated and ensuring that appropriate risk mitigation is in place. The Committee also reviews emerging risks.

The Board confirms that, through the operation of the Risk Committee, it frequently carries out a robust assessment of the principal risks facing the Company. These risks and how they are mitigated are set out below.

The Company's assets consist of direct investments in UK commercial property. Its principal risks are therefore related to the commercial property market in general, but also to the particular circumstances of the properties in which it is invested and their tenants. The Manager seeks to mitigate these risks through continual review of the portfolio utilising research produced by the Manager's in-house research team, detailed reports on the performance of the portfolio, setting of annual asset plans for each asset in the portfolio and also through asset management initiatives. All of the properties in the portfolio are insured, providing protection against risks to the properties and also protection in case of injury to third parties in relation to the properties.

The Board has also identified a number of key specific risks that are reviewed at each quarterly Risk Committee Meeting. These are as follows:

Company objectives

The Company and its objectives become unattractive to investors which may lead to a persistent discount and a continuation vote which may threaten the future solvency and liquidity of the Group.

This risk is mitigated through regular performance reviews of the Company's portfolio, contact with shareholders, a regular review of share price performance and the level of discount at which the shares trade to and regular meetings with the Company's broker to discuss these points and address any issues that arise.

The discount control policy of the Company provides that if the market price of the ordinary shares is more than 5 per cent below the published net asset value (as last calculated, adjusted downwards for the amount of any dividend declared by the Company upon the shares going ex-dividend) for a continuous period of 90 dealing days or more, following the second anniversary of the Company's most recent continuation vote in relation to the discount control policy, the Board will convene an EGM to consider an ordinary resolution for the continuation of the Company. This situation arose in the 90 day period up to 11 October 2016 and, as a result, the Board convened an EGM which was held on 9 November 2016 and, at which, the continuation of the Company was approved with 76% of shareholders voting and, of those who voted, 99.99% voting for the continuation of the Company.

Dividend cover

Dividend cover falls to a level whereby the Company becomes unattractive to investors, for example due to tenant failure or inability to let properties.

This risk is mitigated through regular review of forecast dividend cover, regular contact with shareholders and regular review of tenant mix, risk and profile. Due diligence work on potential tenants is undertaken before entering into new lease agreements and tenants are kept under constant review through regular contact and various reports both from managing agents and from the Manager's own reporting processes. Contingency plans are put in place at units that have tenants that are believed to be in financial trouble.

The potential introduction of new base erosion and profit shifting regulation ('BEPS') has been recognised by the Board as a potential future risk to dividend cover. This risk is considered in more detail in the taxation section opposite.

Company indebtedness

The Company is unable to service or repay its debts, threatening the future solvency and liquidity of the Group.

This risk is mitigated by two factors. First of all the Investment Policy of the Company limits gearing to 25 per cent of total assets at the time of draw down. This low gearing limit means it is expected that, barring any unforeseen circumstances, the Group will have adequate assets to service and repay the debt if required. Secondly, the underlying assets themselves are mainly invested in a diversified, prime UK commercial property portfolio underpinned by a strong tenant base. This means that, even in a significant economic downturn, the Board is confident that the assets will still be of sufficient value and generate sufficient income to meet future liabilities.

15 Great Marlborough Street
London

Emerald Park East
Bristol

Taxation

The tax structure of the Group is not optimised or is affected by legislative change, impacting performance and dividend cover.

The Group is currently structured in a tax efficient way which results in rental income the Group generates being offset by expenses and internal loan interest. The terms of the internal loan notes, namely interest rates and loan to value ratios, are crucial in preserving the tax efficiency of the Group. These loan notes were refinanced in September 2016 via a rigorous process to ensure they represent commercially available terms. The result of this loan note refinancing is that the Company is expected to generate future taxable profits. As the Company has over £50 million of unutilised tax losses and it is anticipated that these losses will now be utilised, the Company has recognised a deferred tax asset in the financial statements of £6.5 million. This asset will be written off over the time period in which the losses are utilised or are no longer able to be offset against future profits.

Linked to the above is the announcement in the Autumn Statement relating to base erosion and profit shifting ("BEPS"). The proposals in the Autumn Statement, if implemented, would mean the Group would only be able to deduct interest up to the amount payable on its external borrowings thereby significantly increasing the amount of tax that would be payable once the tax losses have been fully utilised. This would have a material impact on dividend cover. The Board is considering various methods to mitigate the impact of BEPS including a REIT conversion.

Macroeconomic environment

Uncertainty or change in the macroeconomic environment results in property becoming an undesirable asset class, causing a decline in property values.

This risk is managed through regular reporting from, and discussion with, the Manager and other advisors. Macroeconomic conditions form part of the decision making process for purchases and sales of properties and for sector allocation decisions.

Macroeconomic uncertainty increased during 2016, following the UK's decision to leave the EU and the US presidential election. The Board continues to monitor closely the effect of this on property values and also the impact of any resultant regulatory changes that may impact the Company.

Kew Retail Park
Richmond

Other risks faced by the Company include the following:

- Economic — inflation or deflation, economic recessions and movements in interest rates could affect property valuations, and its bank borrowings.
- Strategic — incorrect strategy, including sector and property allocation and use of gearing, could lead to poor returns for shareholders.
- Regulatory — breach of regulatory rules could lead to suspension of the Company's London Stock Exchange Listing, financial penalties or a qualified audit report.
- Management and control — changes that cause the management and control of the Company to be exercised in the United Kingdom could lead to the Company becoming liable to United Kingdom taxation on income and capital gains.
- Financial — inadequate controls by the Investment Manager or third party service providers could lead to misappropriation of assets. Inappropriate accounting policies or failure to comply with accounting standards could lead to misreporting or breaches of regulations.
- Operational — failure of the Investment Manager's accounting systems or disruption to the Investment Manager's business, or that of third party service providers, could lead to an inability to provide accurate reporting and monitoring, leading to a loss of shareholders' confidence.

An additional operational risk is failure by the Investment Manager, or other third party provider, to implement appropriate policies and procedures to manage information and cyber security risk, leading to financial loss and business disruption for the Company.

The Board seeks to mitigate and manage these risks through the operation of the Risk Committee, policy setting and enforcement of contractual obligations. It also regularly monitors the investment environment and the management of the Company's property portfolio and levels of gearing, and applies the principles detailed in the UK Corporate Governance Code. Details of the Company's internal controls are described in more detail in the Corporate Governance Report on page 42.

Viability Statement

The Board considers viability as part of its ongoing programme of monitoring risk. The Board considers five years to be a reasonable time horizon over which to review the continuing viability of the Company, although it does have regard to viability over the longer term, in particular to key points outside this time frame, such as the due dates for the repayment of long-term debt.

The Board has considered the nature of the Company's assets and liabilities and associated cash flows and has determined that five years is the maximum timescale over which the performance of the Company can be forecast with a material degree of accuracy and so is an appropriate period over which to consider the Company's viability.

The Rotunda
Kingston upon Thames

The Board has also carried out a robust assessment of the principal risks faced by the Company, as detailed on pages 12–14, including periodic continuation votes. The main risks which the Board consider will affect the business model, future performance, solvency, and liquidity are ongoing discounts leading to continuation votes, tenant failure leading to a fall in dividend cover, company indebtedness, taxation and macroeconomic uncertainty. The Board takes any potential risks to the ongoing success of the Company, and its ability to perform, very seriously and works hard to ensure that risks are consistent with the Company's risk appetite at all times.

In assessing the Company's viability, the Board has carried out thorough reviews of the following:

- Detailed NAV, cash resources and income forecasts, prepared by the Company's Manager, for a five year period under both normal and stressed conditions;
- The Company's ability to pay its operational expenses, bank interest, tax and dividends over a five year period;
- Future debt repayment dates and debt covenants, in particular those in relation to LTV and interest cover;
- Demand for the Company's shares and levels of premium or discount at which the shares trade to NAV and;
- The valuation and liquidity of the Company's property portfolio, the Manager's portfolio strategy for the future and the market outlook.

Based on the results of the analysis outlined above, the Board has a reasonable expectation, assuming the periodic continuation vote in 2020 is passed, that the Company will be able to continue in operation and meet its liabilities as they fall due over the five year period of its assessment.

Sustainable Real Estate Investment Policy

The Investment Manager acquires, develops and manages properties on behalf of the Company. It is recognised that these activities have both direct and indirect environmental and social impacts. The Board has adopted the Investment Manager's own Sustainable Real Estate Investments Policy and associated Environmental Management Systems and is committed to environmental management in all phases of an asset's cycle — from acquisition through demolition, redevelopment and operational management to disposal. The focus is on energy conservation, mitigating greenhouse gases emissions, maximising waste recycling and water conservation. To facilitate this, the Manager works in partnership with contractors, suppliers, tenants and consultants to minimise those impacts, seeking continuous improvements in environmental performance and conducting regular reviews.

The Company was awarded a Green Star ranking from the Global Real Estate Sustainability Benchmark 2016. A Green Star is awarded to entities that perform well in both categories of the GRESB Assessment: Management & Policy and Implementation & Measurement. Our approach to monitoring and improving the sustainability performance of the assets held by the Company has been highly successful. Energy consumption and greenhouse gas emissions for managed assets in the Company reduced by 6% and 11% respectively in 2015/16 compared with the year before. The Company also achieved its zero waste to landfill target, recovering value from all waste produced.

In conjunction with these environmental principles the Company has a health and safety policy which demonstrates commitment to providing safe and secure buildings that promote a healthy working/customer experience that supports a healthy lifestyle. The Company, through the Manager, manages and controls health and safety risks systematically as any other critical business activity using technologically advanced systems and environmentally protective materials and equipment. The aim is to achieve a health and safety performance the Company can be proud of and allow the Company to earn the confidence and trust of tenants, customers, employees, shareholders and society at large.

Bribery & Ethical Policy

It is the Company's Policy to prohibit and expressly forbid the offering, giving or receiving of a bribe in any circumstances. This includes those instances where it may be perceived that a payment, given or received, may be a bribe. The Company has adopted an Anti-Bribery and Corruption Policy to ensure robust compliance with The UK Bribery Act 2010. The Company has made relevant enquiries of its Manager and has received assurances that appropriate anti-bribery and corruption policies have been formulated and communicated to its employees. In addition the Board has adopted an ethical policy which highlights the need for ethical considerations to be considered in the acquisition and management of both new and existing properties.

Approval of Strategic Report

The Strategic Report of the Company comprises the following on pages 3 to 29: Financial and Property Highlights, Performance Summary, Chairman's Statement, Strategic Overview, Investment Manager Review and Portfolio Information.

The Strategic Report was approved by the Board on 19 April 2017.

Andrew Wilson
Director

Ken McCullagh
Director

We’ve outperformed our benchmark for the year, which is further evidence that the portfolio repositioning is bearing fruit and has put the Company in a strong position to continue delivering sustainable income.

Will Fulton
Fund Manager

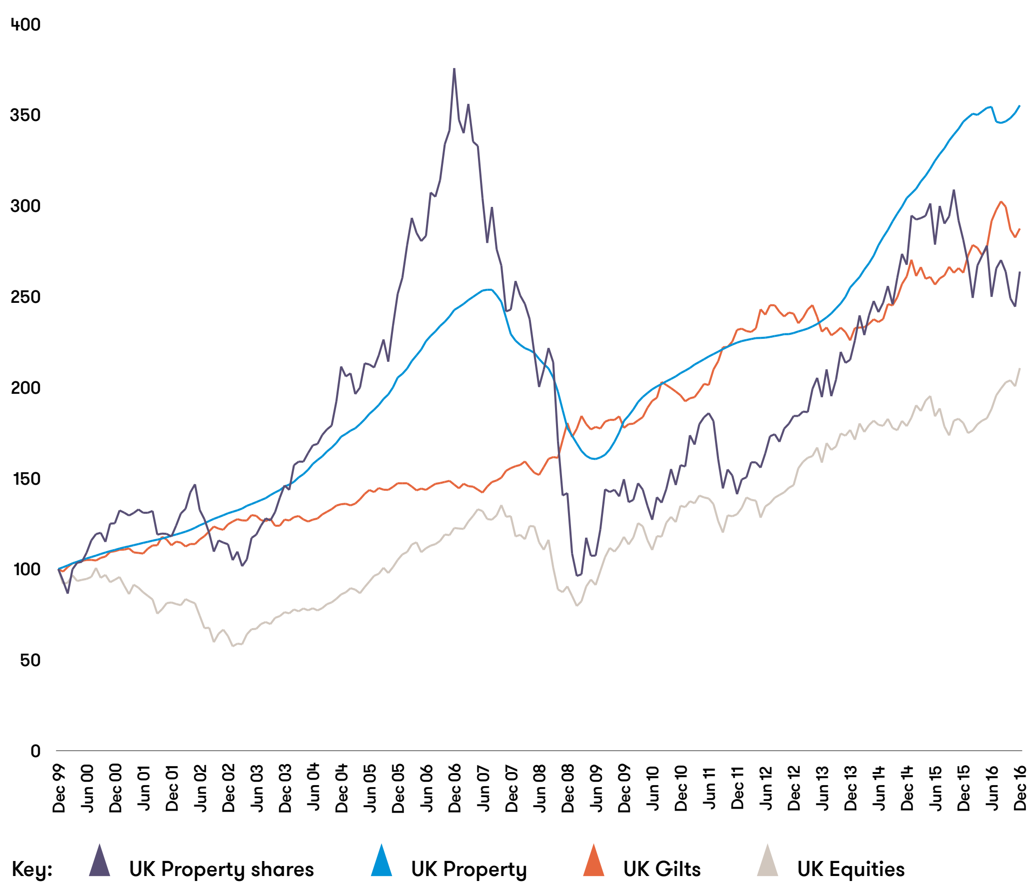
Market Review

Over the 12 months ending December 2016, All Property recorded a 3.6% total return as measured by MSCI/IPD's Balanced Monthly & Quarterly Index. Compared to the 12.7% recorded for 2015 and, following a number of years of strong growth, this reduction was generally anticipated, albeit perhaps accelerated as a result of the EU Referendum result. This lower return represents a transition from a capital growth cycle to one where income dominates – a move away from strong London and South East office returns to a market where industrial stock and long-dated leases are king.

Investment volumes over the year, though down from a £70 billion peak in 2015, remained healthy at £50 billion; it was interesting to see this split more or less evenly between the first and second halves of the year, either side of the EU Referendum. Overseas investment boosted the total, accounting for 43%, with many of those investors attracted by both cheaper sterling and the relative safe haven status of the UK.

Despite the UK government unexpectedly raising Stamp Duty Land Tax in the March 2016 Budget, effectively reducing commercial values by 1%, the first half of the year saw capital maintained – the outcome of the EU Referendum on 23 June was too close to the half year valuation point for the Industry's valuers to gauge any impact and so their 30 June 2016 figures were caveated with an "uncertainty" clause. The market then fell in the third quarter by 2.5%, valuations largely remaining caveated for uncertainty, only to recover by 1.1% in the final quarter. Overall there was a 1.2% market capital decline in 2016, a year in which the income element of total return remained stable at 4.9%. As for the equity markets, the FTSE All-Share and the FTSE 100 total returns were 16.8% and 19.0% respectively over the calendar year whilst listed real estate equities produced a negative total return of 8.5%.

TOTAL RETURN INDEX



Source: Thomson Reuters, IPD, Standard Life Investments

Review by Sector

Retail – Polarised

Retail remained the laggard of the sectors, recording a total return of 1.6% in the 12 months to the end of December 2016. Retail capital growth continued to be weak with values falling by 3.5% over the year and, whilst rents were fairly stable, retail rental growth continued to be considerably weaker than the other two major sectors at 0.5%. This was well below office rental growth at 3.2% and industrial at 3.9%.

Christmas trading was broadly reasonable with most sectors recording an increase in sales compared to last year. There were increases in clothing and footwear (albeit from subdued levels previously), personal goods, food and beverage and leisure and department stores. In contrast, household goods sales were down on the previous year. However, despite the improvement in the value of sales (£ taken), the quantity of goods bought fell which could be down to price increases feeding through via the weakness of sterling and also less discounting in the sector. Consumer confidence remains at relatively low levels and the forward looking indicators for consumer spending, together with actual figures for the three months to the end of February 2017 showing non-food sales at a five year low, suggest that retailers face a more challenging environment in the year ahead. The pressures include higher import prices impacting margins and more forceful cost pressures from the National Living Wage, increased business rates, particularly in London and parts of the South East, higher inflation and, potentially, interest rate increases.

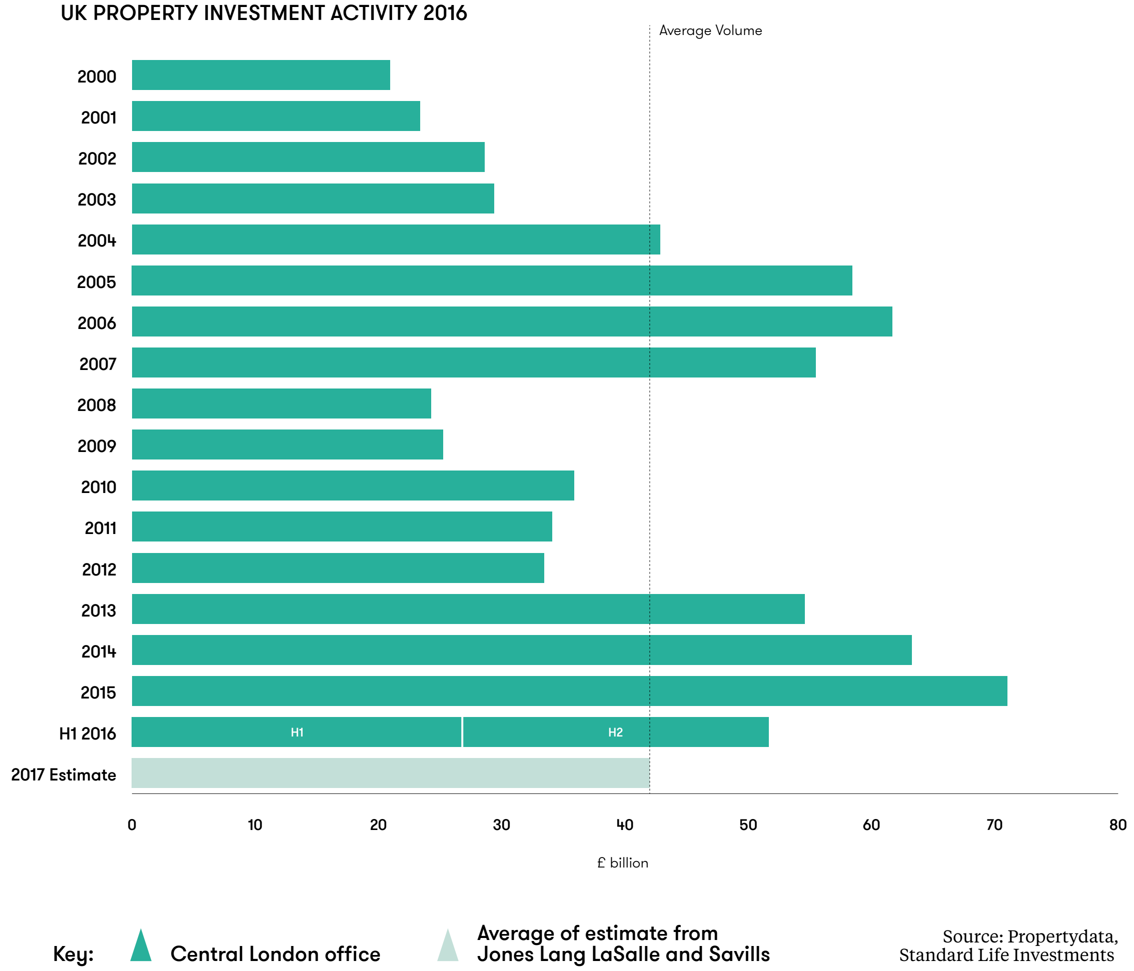
Office – Investment activity rebounds in Central London

In the UK office market, Central London offices experienced the most noticeable slowdown in 2016 compared to the double digit growth the sector delivered in the previous year. Total office returns of 2.4% were recorded over 2016 reflecting pessimistic sentiment following the Referendum vote to leave the EU on top of forecasts which, in the first half of the year, were already switching off any yield price improvement. Through the year, overall, office capital values reduced by 1.6%. Inner London recorded the highest rental growth at 5.2% followed by the South West of the UK and the West End. Yorkshire & Humberside and Scotland witnessed the lowest performance with the city of Aberdeen a key element behind Scotland's weaker office performance impacted by its uncertain and dominant oil industry.

The Referendum uncertainty also dampened occupier activity in the office markets, particularly in terms of the outlook for Central London with announcements, and much media speculation, that some of the large investment banks may start to move a proportion of their staff outside the UK. Generally across Central London and the South East office markets, occupiers have been cautious lately and hence take-up has been below the long term average. Rental incentives have also started to increase to entice occupiers.

Despite this slowdown in growth, office investment accounted for 43% of overall investment activity in 2016. Central London, where activity rebounded in the final quarter from the low levels witnessed in the third quarter, had the largest share of the overall investment pie at 27% (the same level as 2015). Overseas investors, the majority from the US, Hong Kong, China, Canada and Singapore, continued to account for a significant share of Central London activity in 2016 at close to 70% of all investment in the capital. Office investment outside Central London accounted for 16% of overall activity (up slightly on the 14% share in 2015).

UK PROPERTY INVESTMENT ACTIVITY 2016



Source: Propertydata, Standard Life Investments

With a strong balance sheet and cash resources available, we will look to invest prudently into further new income accretive opportunities over the course of the year.

10.8%

UKCPT industrial assets delivered a total return of 10.8%

Industrial – Strong returns in the Industrial sector

The industrial sector continues to demonstrate its strength in the current environment. According to the MSCI/IPD Balanced Monthly & Quarterly Index, the industrial sector delivered a total return of 7.3% with capital values having risen by 2.0% on a 12 month basis to the end of December 2016. In comparison, values for assets in the retail and office sectors fell by 3.5% and 1.6% over the same time frame. Industrial rents rose by 3.9% and significantly outperformed all property as a whole.

The sector fundamentals continue to look attractive with demand, driven by retailers' stronger online sales growth requiring more distribution space, having reduced supply earlier than expected, leading to higher rental growth expectations. As building costs increase, supply should be kept under control which will act to balance take-up in the year ahead. For the wider industrial sector, the pace of manufacturing and industrial activity has held up well due to the weaker pound translating into significantly more letting activity and government incentives to support the sector in the event of the UK leaving the EU.

Portfolio Performance

As identified in our review of the market, real estate returns were lower for 2016 than in recent years. Against this backdrop it is pleasing to report that the Company's real estate portfolio outperformed its IPD benchmark, generating a total return of 4.4% for the year against 3.6% for its benchmark. An income return of 4.8% countered a decline in capital growth of 0.3%. At 31 December 2016 the portfolio was externally valued by CBRE at £1.28 billion.

The dominant driver of performance was the Company's South East industrial portfolio – both from the tailwind impact of being intentionally overweight in the sector, by 10.8%, following the 2015 repositioning exercise, and from out-performance from the portfolio's specific properties against other industrials in the benchmark.

Profit from the Company's two office sales also boosted performance whilst a dampener on what would otherwise have been far stronger outperformance came from the Company's shopping centre portfolio which, particularly at Swindon following the loss of the Company's only BHS store, created a material drag.

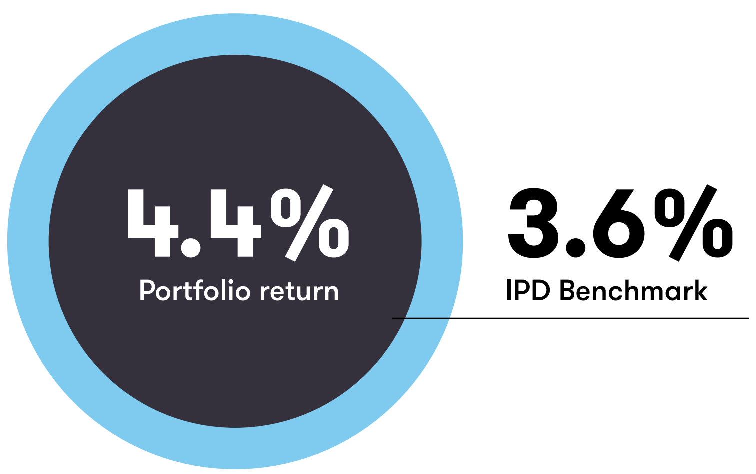
Projecting forward to a period of slowing capital growth across the whole market, the more prime nature of the Company's portfolio should stand it in good stead to deliver sustainable income, better protect capital, and, with cash resources available, acquire new stock fit for the economic environment.

The table below sets out the components of total return of the Company and of the benchmark in each sector for the year to 31 December 2016:

	Total Return 2016		Income Return 2016		Capital Growth 2016	
	Fund %	Benchmark %	Fund %	Benchmark %	Fund %	Benchmark %
Industrial	10.8	7.3	5.4	5.2	5.1	2.0
Office	5.1	2.4	4.6	4.1	0.5	-1.6
Retail	-1.2	1.6	4.6	5.3	-5.6	-3.5
Leisure/Other	3.9	7.2	3.6	5.1	0.3	2.0
TOTAL	4.4	3.6	4.8	4.9	-0.3	-1.2

Source: IPD, Standard Life Investments

TOTAL PORTFOLIO RETURN



Industrial

In common with the wider market, the Industrial sector was the Company's strongest performer in 2016, boosted by a series of positive asset management leasing initiatives and profit from the sale of Dolphin House, situated on its Dolphin Industrial Estate in Sunbury, being allocated to the industrial return.

The Company has a good mix of prime UK "big box" distribution warehouses and multi-let industrial estates, the latter focused on the four points of the compass in and around London. This dynamic portfolio delivered a total sector return of 10.8%, outperforming the benchmark of 7.3% for the year. In the final quarter of the year the 160,000 sq ft industrial unit formerly occupied by B&Q at Ventura Park, Radlett (north M25), fell vacant, increasing overall portfolio vacancy to 3.7%, still well below the benchmark vacancy rate of 6.9%. Agents report good interest from distribution operators looking to lease the building.

Office

The Company's well located portfolio of office investments provided a total return of 5.1% against the benchmark of 2.4% for 2016. City of London exposure, of most concern from potential Brexit fallout, was limited to one asset. Whilst this asset accounted for only around 2% of the Company's whole portfolio it outperformed its IPD City of London benchmark, assisted by leases agreed during the period increasing several rental levels in the holding from £31 psf to circa £53 psf. The Company's West End of London office assets, namely Craven House in Soho, 13 and 15 Great Marlborough Street, and 6 Arlington Street in St James's, significantly outperformed their IPD benchmark at 2.6%, aided by profit on the Q2 sale of 6 Arlington Street. The regional office holdings in Bristol, Newcastle and Birmingham also helped drive performance.

Retail

The IPD retail sector, with the exception of Central London, underperformed the market in 2016. The Company has a marginal underweight retail position compared to its benchmark but its exposure is still significant at 37% of total portfolio value. Overall total return for the Company's retail stock was -1.2% against 1.6% for the benchmark.

It is worth delving a little deeper into the generators of this performance and highlighting three very different sub-sectors, or types, of stock held, particularly as, when the shopping centres in Swindon and Shrewsbury are excluded from the calculations the overall retail performance in 2016 increases demonstrably from -1.2% to +4.2%.

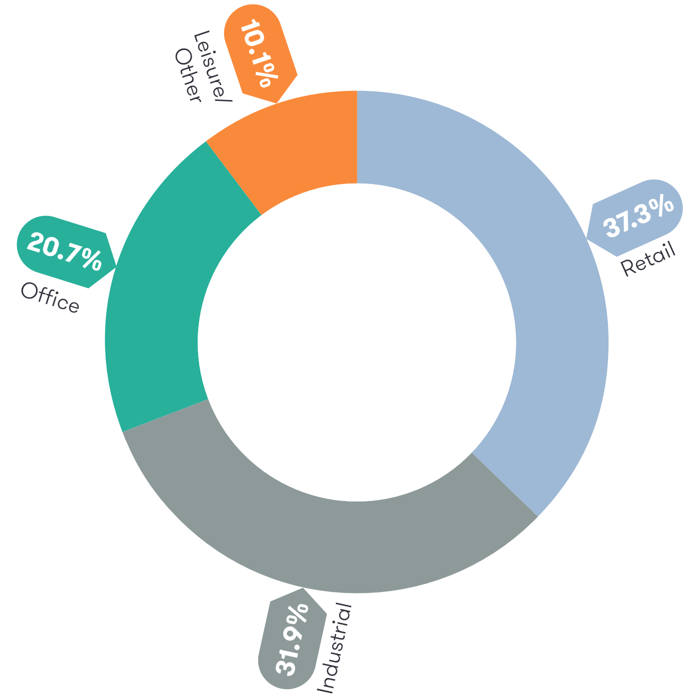
The Company's largest exposure, 59% of the retail total, is to a set of well let principally prime retail parks most of which are classified as "Bulky" – so called as town planners allocate these to the sale of bulky retail goods; many commentators feel these bulky parks are more resilient to competition from online retailing, compared to their "Fashion" retail park peers. Collectively, these provided the Company with a healthy 5.3% income return.

The second sub-sector, accounting for 14% of our retail exposure, is that of regional shop units, where the Company has a small prime portfolio of assets in good locations in Manchester, Edinburgh and Exeter. Through positive asset management action in these prime locations this sub-sector delivered an excellent total return of 16.0% for the Company compared to 1.4% for the benchmark.

The third sub-sector is shopping centres, where the Company's holdings in Swindon and Shrewsbury account for 20% of its retail exposure, or 7% of the total portfolio. The value of these assets dropped by 20% through the year, with the largest impact felt at Swindon mainly due to the loss of BHS as an anchor tenant at The Parade Shopping Centre.

The ongoing short term strategy for these shopping centres is to maintain and, where possible, improve the net operating income at each centre.

In Shrewsbury, at the Charles Darwin Centre, work on the refurbishment of the main mall has recently completed, transforming the appeal of this area to shoppers and retailers. This, together with the creation of a new anchor unit for Primark, also recently completed and handed over for them to carry out their shop fit, will, aside from improving net operating income in its own right, significantly improve the attractiveness of this shopping centre for other tenants. We expect this will create a snowball of interest, further improving net operating income in what is the Company's largest current void. Already, new lettings to Smiggle, New Look Menswear and Costa Coffee can be directly attributed to the imminent introduction of Primark and, with their opening in summer 2017, we are analysing the wider strategic options for this asset.



SECTOR SPLIT

SALES
Sales proceeds in the year represented an aggregate 14% premium to prior quarter market values.

Leisure/Other

The Company's leisure investments – Cineworld, Glasgow, The Rotunda, Kingston upon Thames and Regent Circus, Swindon experienced mixed fortunes in 2016. The cinema in Glasgow outperformed the benchmark, primarily as a result of the value created by extending Cineworld's lease length from 20 to 35 years.

This strong result was, however, offset by some stubborn vacancies amongst the food units and the out of favour supermarket component in Swindon, together with the performance of the anchor Odeon cinema at Kingston upon Thames where, despite continuing to deliver a healthy yield from a well located and popular asset, the rent is not expected to grow. Collectively during the year the Company's leisure assets returned 3.9% against the benchmark of 7.2%.

Investment Activity

Sales

In line with the Company's strategy to sell assets expected to underperform in the short to medium term or where non-accretive capital expenditure requirements has the potential to undermine future performance, the Company sold its mixed-use West End asset, 6 Arlington Street, London, W1 and Dolphin House, an office in Sunbury-on-Thames, for a combined price of £45.6 million prior to the UK Referendum on EU membership, representing an aggregate 14% premium to the 31 March 2016 market value.

Sales momentum continued into early January 2017 when the Company took advantage of a special opportunity to sell one of its West End Soho office properties, 13 Great Marlborough Street, to the owner of the adjoining property. The disposal price of £30.5 million, ahead of the year end valuation, equated to a yield of 3.3%. The building is wholly leased to Sony and, with less than two years remaining, the sale removed short term letting risk and the need for potentially significant capital expenditure.

Purchases

No purchases were made during the year. However, shortly after the year end in early February, the Company completed the forward purchase of a pre-let 258,370 sq ft distribution warehouse development reflecting a yield on capital of 5.8%. Located beside Burton upon Trent, equidistant between Nottingham and Birmingham on the A38 dual carriageway between the M1 and M6 motorways, from which 87% of the UK population can be accessed within a legally continuous 4.5 hour HGV drive time, the tenant, Palletforce Limited, has committed to a 15 year lease at £5.58 psf, or £1.4 million per annum. The lease includes RPI inflation linked rent increases of between 1% and 3% per annum, compounded and payable 5 yearly. Having purchased the land, the balance of the total consideration of circa £22.2 million is payable when the property is fully built, scheduled for summer 2017 – a purchase in line with UKCPT's strategy to focus its portfolio on assets that deliver a higher and sustainable income.

The acquisition is in line with UKCPT's strategy to focus its portfolio on assets that deliver a higher and sustainable income, and it is being funded by the proceeds from the £30.5 million sale of 13 Great Marlborough Street, at a 3.3% net initial yield, as mentioned above.

Asset Management Activity

During the year the Company continued its drive to strengthen income streams, extend lease lengths and add value to the portfolio. Over £6.5 million of annual income was generated after rent free periods and incentives through 44 new leases and 25 lease renewals.

It was good to witness the majority of the seven open market rent reviews within the portfolio generating rental increases this year. The most notable uplift took place at the Wembley distribution facility, Hannah Close, Neasden, let to Marks & Spencer where the rent jumped by 18% to £2.1 million per annum. Overall rent reviews achieved approximately 1% in excess of expected rental value with an increase to rental income of over £527,000 per annum.

There were nine instances of stepped or fixed increases in rent across the portfolio during the year, all of which helped to improve rents by 33%, adding over £435,000 per annum.

Junction 27
Leeds

Marks & Spencer
Neasden, Wembley

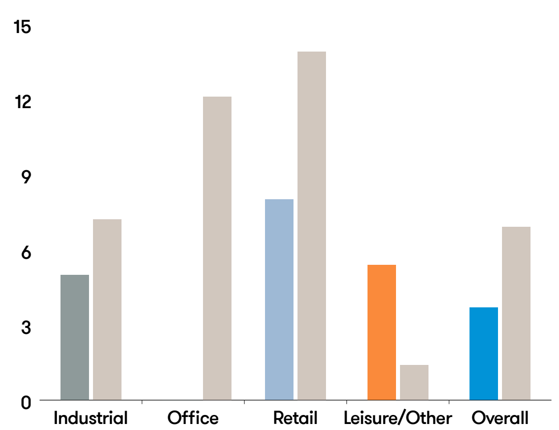
Distribution warehouse (under construction)
Burton upon Trent

Craven House
Soho, London

81 George Street
Edinburgh

Charles Darwin Centre
Shrewsbury (CGI)

VOID RATE BY SECTOR



Key: IPD Benchmark

Source: IPD, Standard Life Investments

With uncertainty in the economy it was pleasing to see the Company's continuing low void position at 31 December 2016 of 3.7% (of ERV), comfortably below the IPD benchmark void rate of 6.9%.

The Company is pleased to report that on average 99% of rent was collected within 21 days of each quarterly payment date during 2016 with a modest 0.4% of annual rent (£274,287) written off as bad debt for the year.

At Junction 27, Leeds, Dean House, trading as Betta Living, was placed into Administration in November 2016. However, following this tenant failure, new occupier tension emerged over this prime retail park unit which culminated in Carpetright agreeing an Assignment of the Dean House lease, paying the Administrator a premium, and an increased rent to the Company.

As steady progress is made towards the delivery of Primark in Shrewsbury (handed over to Primark in early March 2017 with the opening scheduled for summer 2017), three lease renewals completed at the Charles Darwin shopping centre with Claire's, Grape Tree and Body Shop securing £136,500 per annum of rental income, 11% ahead of ERV. Fashion retailer, Yours, also relocated and upsized to facilitate the introduction of Costa Coffee.

In Edinburgh, following the successful letting to Joules in the first half of the year (£320,000 per annum for 10 years) and completion of the lease to Clydesdale Bank Plc (£750,000 per annum for 20 years) in October, contracts were exchanged with Intergen UK Ltd at 81 George Street. Once refurbishment works to the second floor office suite have completed, £325,000 per annum will be secured on a new 10 year lease and Intergen will relocate from the third floor, releasing this for refurbishment in a City starved of prime Grade A city centre office stock. This ongoing active rejuvenation of the property has increased its value, added income and improved the average weighted unexpired lease length.

Just off Carnaby Street at Craven House, Soho, the company renewed the lease with the building's occupier, Molinare TV & Film Ltd, the post-production supplier of drama and feature films including Sherlock and Netflix's The Crown. The new rent of £1,027,250 per annum is an increase of 37% on the previous rent passing.

Within the Retail Warehouse sector at St George's Retail Park, Leicester, lease renewals took place with Pets at Home and Aldi securing £487,000 per annum (in line with ERV), on new long term leases of 10 and 15 years, respectively. As part of the transaction the units were 'right-sized' for the occupiers and re-clad.

In addition, contracts exchanged with Wren Kitchens and Tapi Carpets to occupy 20,000 sq ft of a new 25,000 sq ft development to be built at the reconfigured entrance to the Retail Park. The reconfiguration works will assist access and egress to the park and when the new 10 year leases complete they will generate £489,500 per annum after lease incentives. Following the year end, in March, the final smaller unit of 5,000 sq ft has been pre-let to Laura Ashley on a term of 10 years adding a further £110,000 annual rent.

At the start of the year we let the one vacant floor at Eldon House in the City of London to Proclinical, a life sciences recruitment firm, at an annual rent of £266,000 per annum after lease incentives. The letting secured £52 psf per annum, well above the average rental level of £31 psf per annum payable at the time of acquisition. We also regeared Triglyph Property Consultants' lease, increasing rent from £41,000 per annum to £81,000 per annum, in line with market rent.

St George's Retail Park
Leicester


Eldon House
City of London

Gatwick Gate Industrial Estate
Crawley

Cineworld
Glasgow


1 Rivergate
Bristol


9 Colmore Row
Birmingham

In the second half of the year we agreed a 10 year term certain with existing tenant Stace LLP at an improved level of rent £340,369 per annum, including additional floor space, up from the £189,898 per annum payable under the original lease. Again, this transaction secured £53 psf per annum, up from £32.50 psf per annum payable at the time of acquisition in late 2015.

Two new lettings completed with International Logistic Group (ILG) at Gatwick Gate, Crawley, generating £360,375 per annum, which was 9% ahead of ERV have added value and removed a short term lease expiry spike in the property.

In the regions, a new eight year lease of the entire office at 1 Rivergate, Bristol, was signed with the current sub-tenant, OVO Energy Ltd, which will commence in April 2018 on expiry of the current lease to BT. An increased rent of £1,720,000 per annum will be generated, up from the previous rent of £1,540,000 per annum.

Our focus on extending lease length and improving income was delivered in Glasgow with the extension of Cineworld's lease from 20 years to an exceptionally long 35 years on its flagship cinema and also with the introduction of 1.5% per annum fixed rental increases, compounded and captured within the lease every five years. The rent passing was also increased from £1,460,000 per annum to £1,545,000 per annum.

A 10 year lease renewal took place with Turley Associates Ltd within 9 Colmore Row, a regional office building located next to Snow Hill railway station in Birmingham, at £105,150 per annum, an increase of 15% over the previous rent passing.

"Despite the uncertainty associated with political wrangling, UK real estate continues to provide an elevated yield compared to other assets.

Market Outlook

Despite the uncertainty associated with political wrangling, UK real estate continues to provide an elevated yield compared to other assets. Furthermore, lending to the sector is at a lower level than the Financial Crisis of 2007/08 and liquidity remains reasonable. In an environment where the economic fundamentals are expected to soften further and with uncertainty remaining high, we expect lower returns from property than has been the case over the last few years.

The steady secure income component generated by the asset class is likely to be the key driver of returns. From a sector perspective, we expect Central London offices to be the most negatively impacted sector in the near term, given the linkages to European markets via cross border trading. We expect industrial, and the best retail assets, to be comparatively resilient with potentially some growth, while long income assets should provide most resilience and our strategy is therefore aligned with this outlook.

Portfolio Strategy

Your Company aims to deliver an attractive level of income, together with the potential for capital and income growth, through investment in a diversified UK commercial property portfolio. Our strategy to achieve this combines investment, divestment, and asset management, including disciplined investment in existing stock where accretive.

UKCPT is in the fortunate position, having planned and executed a number of sales throughout the past year, of having a generous cash position of £75 million (31 December 2016) available for investment into opportunities which fit the Company's investment policy. This cash available for investment is after allowing for dividend and capital expenditure commitments and, if opportunities arise, the Company has a further £50 million of capital available to be drawn down tactically from its revolving credit facility.

When looking at opportunities to deploy these resources, we have increased our focus on long-term secure income, often found in alternative sectors, which we will look to access provided that they have the potential to be accretive to recurring dividend cover.

Importantly we are also open to exploiting pricing opportunity in the market, across most sectors, with a large team and the resource to react quickly. As the intricacies of the UK leaving the EU unfold, we expect there to be more buying opportunities as the property market waxes and wanes.

Turning to asset management it is noticeable, when compared with the benchmark, that the Company's portfolio has a low vacancy rate (3.7%). Whilst we are very pleased with the continuance of this low rate, we aim to augment net operating income through a focused strategy on asset management and leasing activity across the portfolio whilst seeking to protect shareholders from the risk of new vacancy by negotiating lease extensions with existing tenants.

As the property market seems firmly established in a period where the fundamental attributes of property reassert themselves, where income and income growth will drive returns, we believe the Company is well positioned to meet its objective of providing shareholders with an attractive level of income, together with the potential for capital and income growth from investment in a diversified portfolio of UK commercial property.

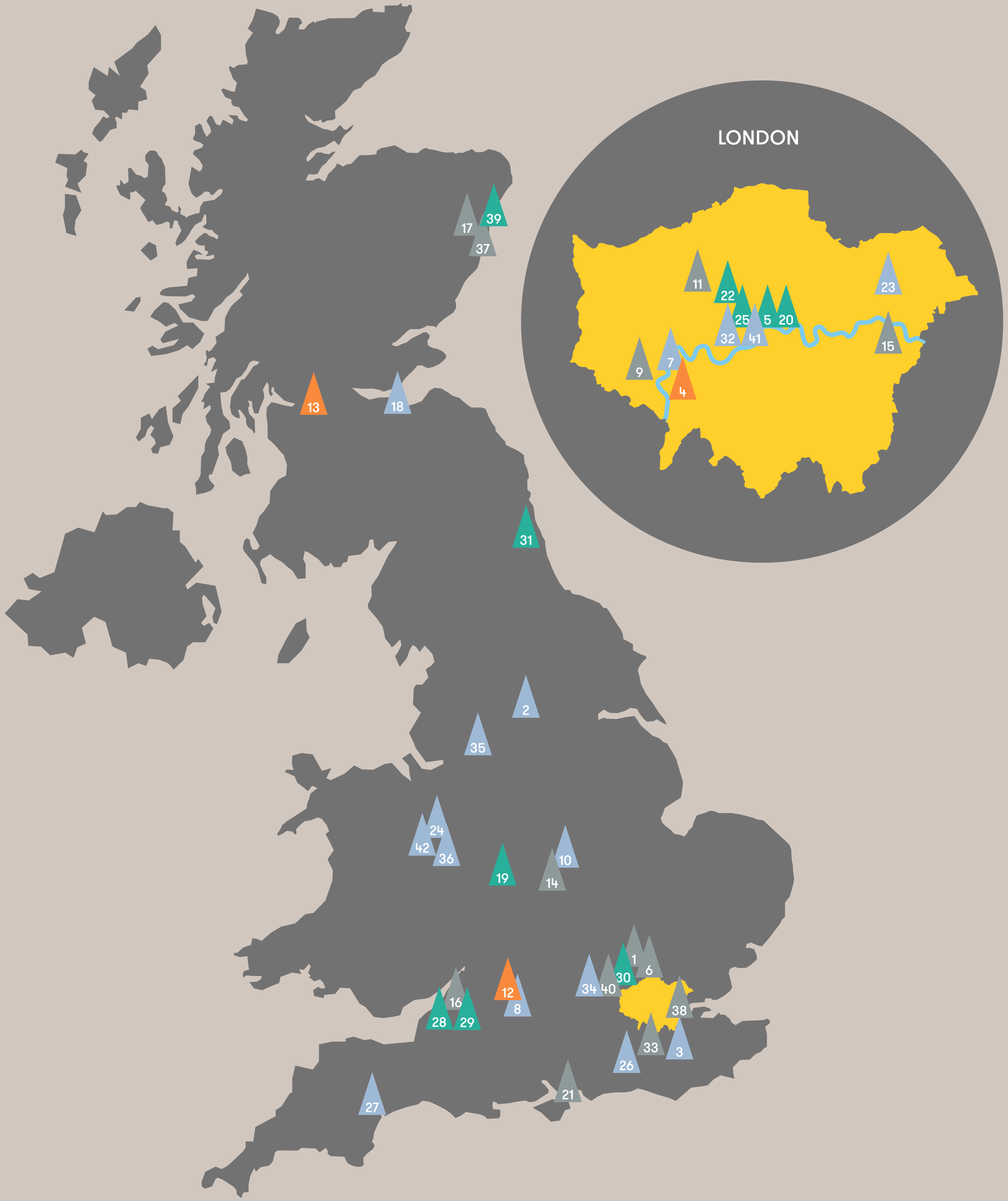
Will Fulton
Fund Manager
Standard Life Investments
19 April 2017

Property Portfolio

by geography

UK Commercial Property Trust

PROPERTY PORTFOLIO
As at 31 December 2016



	PROPERTY	Tenure	Sector	Principal Tenant	Value Range
1	Ventura Park, Radlett	Freehold	Industrial	DHL	
2	Junction 27 Retail Park, Birstall, Leeds	Freehold	Retail Warehouse	DSG Retail Ltd	
3	Great Lodge Retail Park, Tunbridge Wells	Freehold	Retail Warehouse	B&Q Plc	Over £50m (representing 38% of the portfolio market value)
4	The Rotunda, Kingston upon Thames	Freehold	Leisure	Odeon Cinemas Ltd	
5	15 Great Marlborough Street, London, W1	Freehold	Office	Sony Ltd	
6	Ocado Distribution Unit, Hatfield Business Area, Hatfield	Freehold	Industrial	Ocado Ltd	
7	Kew Retail Park, Richmond	Freehold	Retail Warehouse	Mothercare (UK) Ltd	
8	The Parade, Swindon	Freehold	Shopping Centre	H&M Hennes & Mauritz UK Ltd	
9	Dolphin Estate, Sunbury-on-Thames	Freehold	Industrial	Access Self Storage Properties Ltd	
10	St George's Retail Park, Leicester	Freehold	Retail Warehouse	Toys R Us Ltd	
11	Hannah Close, London, NW10	Leasehold	Industrial	Marks & Spencer Plc	£30m–£50m (representing 25% of the portfolio market value)
12	Regent Circus, Swindon	Freehold	Leisure	Wm Morrison Supermarkets Plc	
13	Cineworld Complex, Glasgow	Freehold	Leisure	Cineworld	
14	Argos Unit, Magna Park, Lutterworth	Leasehold	Industrial	Argos Ltd	
15	Newton's Court, Dartford, Kent	Freehold	Industrial	Gisela Graham Ltd	
16	Emerald Park East, Emersons Green, Bristol	Freehold	Industrial	Knorr-Bremse Systems Ltd	
17	Total, Aberdeen Gateway, Aberdeen	Freehold	Industrial	Total E&P UK Ltd	
18	81/85 George Street, Edinburgh	Freehold	High St, Retail	Clydesdale Bank	
19	Colmore Court, 9 Colmore Row, Birmingham	Leasehold	Office	BNP Paribas	
20	13 Great Marlborough Street, London, W1*	Freehold	Office	Sony Ltd	
21	Motor Park, Eastern Road, Portsmouth	Freehold	Industrial	Volkswagen Group UK Ltd	
22	Eldon House, City of London, EC2	Freehold	Office	Stace LLP	
23	B&Q, Roneo Corner, Romford	Freehold	Retail Warehouse	B&Q Plc	£20m–£29.9m (representing 28% of the portfolio market value)
24	Charles Darwin Shopping Centre, Shrewsbury	Freehold	Shopping Centre	H&M Hennes & Mauritz UK Ltd	
25	Craven House, Fouberts Place, London, W1	Freehold	Office	Molinaire Ltd	
26	Broadbridge Retail Park, Horsham	Freehold	Retail Warehouse	Bunnings	
27	16/20 High Street & 1/3 Bedford Street, Exeter	Leasehold	High St, Retail	H&M Hennes & Mauritz UK Ltd	
28	No 2 Temple Quay, Bristol	Freehold	Office	Public Sector	
29	No 1 Temple Quay, Bristol	Freehold	Office	British Telecommunications Plc	
30	Network House & Meadowside House, Hemel Hempstead	Freehold	Office	Public Sector	
31	Central Square Offices, Forth Street, Newcastle Upon Tyne	Freehold	Office	Ove Arup & Partners	
32	140/144 Kings Road, London, SW3	Freehold	High St, Retail	French Connection UK Ltd	
33	Gatwick Gate Industrial Estate, Crawley	Freehold	Industrial	Industrial Logistics Group	
34	14–22 West Street, Marlow	Freehold	High St, Retail	Sainsbury's Supermarket Ltd	
35	52/56 Market Street, Manchester	Freehold	High St, Retail	Adidas (UK) Ltd	
36	Pride Hill Shopping Centre, Shrewsbury	Freehold	Shopping Centre	Next plc	Below £20m (representing 9% of the portfolio market value)
37	Tetra, Aberdeen Gateway, Aberdeen	Freehold	Industrial	Tetra Technologies UK Ltd	
38	Crossways Cargo Depot, Dartford	Freehold	Industrial	Veerstyle Ltd	
39	Ensco, Aberdeen Gateway, Aberdeen	Freehold	Office	Ensco Services Ltd	
40	Knaves Beech Industrial Estate, Loudwater	Freehold	Industrial	Dreams Ltd	
41	146 King's Road, London, SW3	Freehold	High St, Retail	Telefonica O2 UK Ltd	
42	Riverside Shopping Centre, Shrewsbury	Leasehold	Shopping Centre	Wilkinson Hardware Stores Ltd	

Overall number of properties	42
Total number of tenancies	346
Total average property value	£30.5m
Total floor area	5,768,955 sq ft
Freehold/Leasehold (leases over 100 years)	90%/10%

* Sold post year end

Key: Industrial Office Retail Leisure/Other

6 ARLINGTON STREET
London (Sold June 2016)

Governance

BOARD OF DIRECTORS AND MANAGEMENT TEAM

The Directors, all of whom are non-executive and are independent of the Investment Manager, are responsible for the determination of the investment policy of the Group and its overall supervision.

1

2

3

1 Ken McCullagh is a resident of Ireland. Since 2000 he has been Chief Executive Officer of LNC Property Group, a private real estate investment company which held and managed €500 million of assets. Previously he worked as a Director and Partner of Corporate Finance for Farrell Grant Sparks, Chartered Accountants and was also a Financial Controller of Gunne Estate Agents (now CBRE) in Dublin. He is a Fellow of the Institute of Chartered Accountants of Ireland. Mr McCullagh was appointed to the Board in February 2013.

2 John Robertson is a resident of the UK. Mr Robertson has over 35 years' experience in investment management in a variety of roles, and was most recently Director — Funds and Corporate Governance at Ignis Investment Services Limited. Prior to his retirement in 2012, he was a director of Ignis International Funds plc, Ignis Alternative Funds plc, Ignis Liquidity Fund plc, Ignis Strategic Solutions Funds plc and Ignis Global Funds SICAV. He is a Fellow of the Chartered Association of Certified Accountants. Mr Robertson has been a Director of the Company since launch in September 2006.

3 Sandra Platts is a resident of Guernsey and is a non-executive director of Investec Bank (C.I.) Ltd and Starwood European Finance Partners Ltd. Sandra was Managing Director of Kleinwort Benson in Guernsey and Chief Operating Officer for Kleinwort Benson Private Banking Group (UK and Channel Islands). She also held directorships of the Kleinwort Benson Trust Company and Operating Boards, retiring from Kleinwort Benson boards in 2010. Sandra holds a Masters in Business Administration and The Certificate in Company Direction from the Institute of Directors. Mrs Platts was appointed to the Board in December 2013.

4 Andrew Wilson is a resident of the UK. He was formerly of Richard Ellis, Royal Insurance as Chief Surveyor and he joined Rugby Securities as a director in 1987. He was a founder director of Rugby Estates plc in 1990 and Chief Executive Officer through its official listing, move to the Alternative Investment Market and subsequent de-listing and sale. He is also a non-executive Chairman of a London based Family Office and of a major West End office agency. He was previously a non-executive Director of a Building Society. He is a Chartered Surveyor and was until his appointment as Chairman, the Senior Independent Director and Chair of the Property Valuation Committee.

4

5

BOARD OF DIRECTORS

5 Michael Ayre is a resident of Guernsey. He is currently a consultant to the Guernsey taxation and private client business of Intertrust Group, Intertrust Reads Private Clients Limited. Mr Ayre is also currently a Director of ABN Amro (Guernsey) Limited and Brooks MacDonald Investment Funds plc which is listed in Ireland. Mr Ayre is member of the Chartered Association of Certified Accountants and is also a member of the Chartered Institute of Taxation. Mr Ayre was appointed to the Board in February 2016.

6 Will Fulton graduated from the University of Aberdeen in 1987 with a degree in Land Economy when he joined Standard Life, becoming a member of the Royal Institution of Chartered Surveyors in 1990. Throughout his 28 year career he has held a variety of commercial real estate positions gaining multi-disciplinary experience spanning investment, valuation, asset management, debt facility management, development and investor relations both in the UK and across continental Europe. Prior to managing UKCPT, he oversaw a team managing the £2.3 billion Standard Life Heritage With Profits Real Estate Fund.

6

7

MANAGEMENT TEAM

7 Graeme McDonald graduated from the University of Strathclyde in 1995 with a BA degree in Accountancy and joined Hardie Caldwell Chartered Accountants in 1996 where he qualified as a Chartered Accountant in 1999. In 2001 Graeme joined Glasgow Investment Managers ("GIM") as chief accountant focusing on the finance, administration and company secretarial work for three investment trusts. Following GIM's takeover by Aberdeen Asset Managers in 2007, Graeme transferred to the investment trust secretarial team within Aberdeen working on both investment trusts and Venture Capital trusts. In 2009 Graeme joined Scottish Widows Investment Partnership where he was a finance project manager before joining Ignis in January 2011 as a Fund Accounting Manager to provide a dedicated fund accounting and company secretarial service to the closed end clients within Ignis Asset Management. Graeme transferred over to Standard Life Investments in October 2014.

Energy consumption and greenhouse gas emissions for managed assets in the Company reduced by 6% and 11% respectively in 2015/16 compared with the year before.

REPORT OF DIRECTORS

The Directors present the report and accounts of UK Commercial Property Trust Limited, ("the Company") for the year ended 31 December 2016.

Results and Dividends

The results for the year are set out in the attached accounts.

The Company has paid interim dividends in the year ended 31 December 2016 as follows:

	Payment date	Rate per share (p)
Fourth interim for prior period	February 2016	0.92
First interim	May 2016	0.92
Second interim	August 2016	0.92
Third interim	November 2016	0.92
TOTAL		3.68

On 8 February 2017 the Company declared a fourth Interim dividend of 0.92 pence per ordinary share with an ex-dividend date of 16 February 2017, which was paid on 28 February 2017.

Principal Activity and Status

The Company is a Guernsey company and during the year carried on business as a property investment company. The principal activity and status of the Company's subsidiaries is set out in Note 10 on page 69.

Listing Requirements

Throughout the period the Company complied (and intends to continue to comply) with the conditions applicable to property investment companies set out in the Listing Rules.

Share Capital

The issued ordinary share capital at 31 December 2016 consisted of 1,299,412,465 ordinary shares of 25p each. At 12 April 2017 these numbers were unchanged. Each ordinary share of the Company carries one vote at general meetings of the Company. Save for the provision of the articles of association, there are no restrictions on the transfer of ordinary shares in the Company other than certain restrictions which may from time to time be imposed by law (for example, insider trading law).

Directors

The Directors who held office during the period and their interests in the ordinary shares of the Company as at 31 December 2016 (all of which are beneficial) are shown in the table below.

On 6 March 2017 Mr Michael Ayre purchased 42,000 shares. There have been no other changes in the above interests between 31 December and 31 March 2017.

The Directors are also Directors of UK Commercial Property Holdings Limited, UK Commercial Property GP Limited, UK Commercial Property Nominee limited, UK Commercial Property Estates Holdings Limited, UK Commercial Property Estates Limited and UK Commercial Property Finance Holdings Limited which are all wholly owned subsidiary undertakings. In addition the Group wholly owns Brixton Radlett Property Limited, a UK Limited Company, the Directors of which are Mr Andrew Wilson and Mr John Robertson.

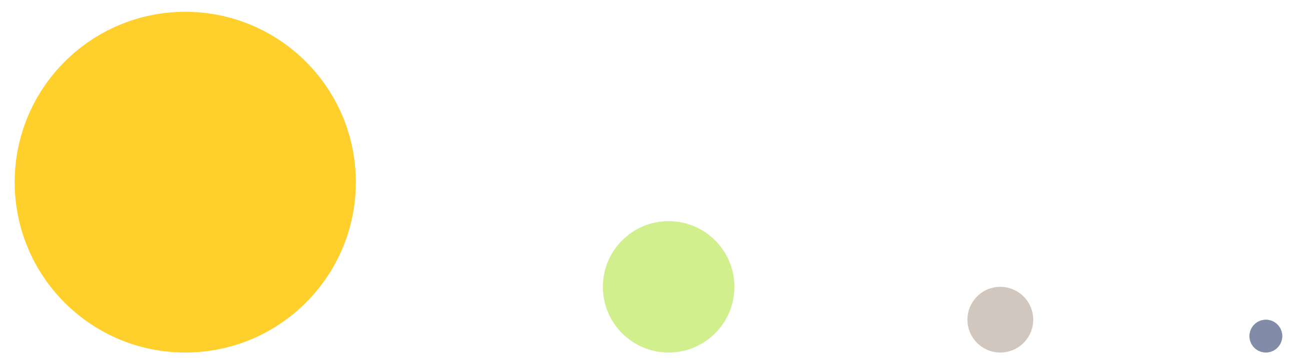
The Company maintains an appropriate level of insurance in respect of Directors' & Officers' liabilities in relation to work undertaken on behalf of the Company and all its subsidiaries. In addition, individual Directors may, at the expense of the Company, seek independent professional advice on any matter that concerns them in the furtherance of their duties.

As recommended by the AIC Code of Corporate Governance and the UK Corporate Governance Code, the Company's policy is for all Directors to retire and offer themselves for re-election at the Annual General Meeting ("AGM") immediately following their appointment and annually thereafter. Accordingly, Mr Michael Ayre, Mr Ken McCullagh, Mrs Sandra Platts, Mr John Robertson and Mr Andrew Wilson will retire and offer themselves for re-election at the AGM.

Following evaluations for each individual Director and the Board as a whole, as well as a review of the performance of the Chairman by the other members of the Board, the performance of all of the Directors continues to be effective with each making a positive contribution to the performance of the Company. Therefore, the re-election and election of all the Directors who are being put forward is recommended to shareholders at the 2017 AGM. An external review of the Board was carried out in February 2017, facilitated by Boardroom Review Ltd; the action points arising from this review will be addressed and, where appropriate, revised practices will be adopted.

	Date of Appointment	Shares as at 31 December 2016	Shares as at 31 December 2015
Andrew Wilson	September 2006	75,000	75,000
John Robertson	September 2006	10,000	10,000
Ken McCullagh	February 2013	40,000	40,000
Sandra Platts	December 2013	—	—
Michael Ayre	February 2016	—	—
Christopher Hill retired 16 June 2016	September 2006	n/a	20,000

SHARE CAPITAL AT 31 DECEMBER 2016



	Phoenix Life Limited ("PLL")	Phoenix Life Assurance Limited ("PLAL")	Investec Wealth Limited	Alliance Trust Savings Limited	Nestle Capital Management Limited
Number of ordinary shares held	**537,189,905**	**84,775,094**	**140,797,236**	**61,373,487**	**56,137,385**
% Held	**41.34**	**6.52**	**10.65**	**4.72**	**4.32**

Alternative Investment Fund Manager ("AIFM")

Up until 29 December 2015, Ignis Fund Managers Limited (registered in the United Kingdom) was the appointed AIFM of the Company undertaking the management of the Company in accordance with the requirements of the Alternative Investment Fund Managers Directors ("AIFMD"). On 29 December 2015, Standard Life Investments (Corporate Funds) Limited was appointed as the Company's AIFM.

Depositary

In accordance with the requirements of AIFMD, the Board appointed Citibank International PLC as depositary to the Company on 18 July 2014. On 29 December 2015 this changed to Citibank International Limited.

Substantial Interests in Share Capital

At 31 December 2016 the above holdings, representing more than 3 per cent of the Company's issued share capital, had been notified to the Company.

The Phoenix shareholding is held in the above two legal entities via a number of With Profit Funds which are closed to new investment and hence are in run-off over the medium to long term. The holding is managed on an arms length basis and by a separate team within Standard Life Investments to the team who manage the Company led by Will Fulton. There is also a shareholder agreement between the Company and PLL and PLAL which provides that PLL and PLAL and their associates will not take any action which would be detrimental to the general body of shareholders. Given the total Phoenix holdings are now below 50%, the results of the Company are no longer consolidated into the Phoenix Group.

Post the year end, an in-specie transfer between the two Phoenix entities resulted in the PLL holding being 494,897,693 shares (38.09%) and PLAL holding 127,067,306 shares (9.78%).

No other changes to any of the above holdings had been notified to the Company as at 31 March 2017.

Going Concern

The Company's business activities, together with the factors likely to affect its future development, performance and financial position are set out in the Strategic Overview on pages 11 to 15. In addition, note 17 to the financial statements includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposure to credit risk and liquidity risk.

At both the Company and Group levels, comprehensive going concern assessments have been performed. The Board has followed the Financial Reporting Council's "Guidance on Risk Management, Internal Control and Related Financial and Business Reporting 2014." when performing their going concern assessments and also considered the recommendations on Risk Management and Control in the UK Corporate Governance Code (April 2016).

The assessments performed include review of the valuation and liquidity of investments as at the balance sheet date and forecasts of NAV, cash resources and income under both normal and stressed conditions.

Having thoroughly considered the going concern assessment the Board has concluded that there are no material uncertainties that may cast significant doubt about the Company and Group's ability to continue as a going concern over the next twelve months from the date of the annual report. The Directors have a reasonable expectation that the Company and Group will be able to continue in operational existence and to have adequate resources to meet its liabilities as they fall due over the next twelve months. Due consideration has also been given to the viability of the Company as set out on page 14. Therefore, the Board continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Non-Mainstream Pooled Investments

The Company currently conducts its affairs so that the shares issued by the Company can be recommended by IFAs to ordinary retail investors in accordance with the FCA's rules in relation to non-mainstream investment products and intends to continue to do so for the foreseeable future. The shares are excluded from the FCA's restrictions which apply to non-mainstream investment products because the Company would qualify as an investment trust if the Company were based in the UK.

10%

Non pre-emptive share issuance authority being sought from shareholders

14.99%

Share buy back authority being sought from shareholders

Annual General Meeting

Among the resolutions being put at the Annual General Meeting of the Company to be held on 21 June 2017, the following resolutions will be proposed.

Disapplication of Pre-emption Rights

Resolution 10 gives the Directors, for the period until the conclusion of the Annual General Meeting in 2017 or, if earlier, on the expiry of 15 months from the passing of resolution 10, the necessary authority either to allot securities or sell shares held in treasury, otherwise than to existing shareholders on a pro-rata basis, up to an aggregate nominal amount of £32,485,312. This is equivalent to approximately 10 per cent of the issued ordinary share capital of the Company as at 19 April 2017. There are no shares currently held in treasury. The Directors will allot new shares pursuant to this authority only if they believe it is advantageous to the Company's shareholders to do so and in no circumstances would this be done if it results in a dilution to the prevailing net asset value per share.

Directors' Authority to Buy Back Shares

The current authority of the Board granted to it by shareholders at the 2016 AGM to buy back shares in the Company expires at the end of the AGM to be held in 2017. The Board intends to renew such authority to buy back shares up to 14.99 per cent of the number of ordinary shares in issue. This special resolution, if approved, will enable the Company to buy back up to 194,781,928 shares based on the current number of shares in issue (excluding any treasury shares). Any buy back of ordinary shares will be made subject to Guernsey law and within guidelines established from time to time by the Board, (which will take into account the income and cash flow requirements of the Company), and the making and timing of any buy backs will be at the absolute discretion of the Board.

Purchases of ordinary shares will only be made through the market for cash at prices below the prevailing published net asset value of an ordinary share (as last calculated, adjusted downwards for the amount of any dividend declared by the Company upon the shares going ex-dividend), where the Directors believe such purchases will enhance shareholder value. Such purchases will also only be made in accordance with the rules of the UK Listing Authority which provide that the price to be paid must not be more than the higher of (i) five per cent above the average of the middle market quotations for the ordinary shares for the five business days before the purchase is made and (ii) the higher of the last independent trade and the highest current independent bid on the London Stock Exchange. The minimum price (exclusive of expenses) that may be paid is 25 pence a share.

The Company may retain any shares bought back as treasury shares for future re-issue, or transfer, or may cancel any such shares. During the period when the Company holds shares as treasury shares, the rights and obligations in respect of those shares may not be exercised or enforced by or against the Company. The maximum number of shares that can be held as treasury shares by the Company is 10 per cent of the aggregate nominal value of all issued ordinary shares. Ordinary shares held as treasury shares will only be re-issued, or transferred at prices which are not less than the published net asset value of an ordinary share.

It is the intention of Directors that the share buy back authority may be used to purchase ordinary shares, (subject to the income and cash flow requirements of the Company), if the share price of an ordinary share is more than 5 per cent below the published net asset value (as last calculated, adjusted downwards for the amount of any dividend declared by the Company upon the shares going ex-dividend), for a continuous period of time. In the event that such discount is more than 5 per cent for 90 dealing days or more, following the second anniversary of the Company's most recent continuation vote, which was on 9 November 2016, the Directors will convene an Extraordinary General Meeting ("EGM") to be held within three months to consider an ordinary resolution for the continuation of the Company. If this continuation resolution is not passed, the Directors will convene a further extraordinary general meeting to be held within six months of the first extraordinary meeting to consider the winding up of the Company or a reconstruction of the Company which offers all Shareholders the opportunity to realise their investment. If any such continuation resolution is passed, this discount policy, save in respect of share buy backs, would not apply for a period of two years thereafter.

The next continuation vote required by the Company's Articles of Association is set for 2020 and every seven years thereafter.

Auditors

Deloitte LLP was appointed as auditors of the Group for the year ended 31 December 2016. A resolution proposing their re-appointment will be put to the AGM.

So far as each of the Directors is aware, there is no relevant audit information of which the Company's Auditor is unaware, and each has taken all the steps he/she ought to have taken as a Director to make themself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

Recommendations

The Directors believe that the resolutions to be proposed at the Annual General Meeting are in the best interests of the Company and its shareholders as a whole, and recommend that shareholders vote in favour of the resolutions, as the Directors intend to do in respect of all their own beneficial shareholdings.

Statement Regarding the Annual Report and Accounts

Following a detailed review of the Annual Report and Accounts by the Audit Committee (and by any Directors who are not members of the Audit Committee), full details of which can be found in the Audit Committee Report, the Board consider that when taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

The Board welcomes views from shareholders and company analysts on the Annual Report and Accounts and, where practical, will incorporate any suggestions that will improve the document.

Approved by the Board on 19 April 2017.

Andrew Wilson
Director

Ken McCullagh
Director

The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the UK Corporate Governance Code), will provide an appropriate and satisfactory level of transparency to shareholders.

Introduction

The Board has considered the principles and recommendations of the AIC Code of Corporate Governance (AIC Code) by reference to the AIC Corporate Governance Guide for investment Companies (AIC Guide) both of which can be found at www.theaic.co.uk. The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code which can be found at www.frc.org.uk, as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company.

The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the UK Corporate Governance Code), will provide an appropriate and satisfactory level of transparency to shareholders.

The Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Corporate Governance Code throughout the accounting period, except as set out below:

- the role of the chief executive (A.1.2);
- executive directors' remuneration (D.1.1 and D.1.2).

For the reasons set out in the AIC Guide, and as explained in the UK Corporate Governance Code, the Board considers these provisions are not relevant to the position of the Company, being an externally managed investment company. In particular, all of the Company's day-to-day management and administrative functions are outsourced to third parties. As a result, the Company has no executive directors, employees or internal operations. The Company has therefore not reported further in respect of these provisions.

The Board

The Board consists solely of non-executive Directors of which Mr Andrew Wilson is Chairman and Mr Ken McCullagh is Senior Independent Director. All Directors are considered by the Board to be independent, with any potential conflicts considered at each Board meeting with reference to the AIC Code. The Board's policy on tenure is that continuity and experience are considered to add significantly to the strength of the Board and, as all Directors will be subject to re-election on an annual basis, it is not appropriate for the Board to have a limit on the overall length of service of any of the Company's Directors, including the Chairman. The Board also takes the view that independence is not compromised by length of tenure on the Board and Mr John Robertson and Mr Andrew Wilson, who have been Directors since 2006, have not been compromised by length of service. In considering this, the Board considered a number of factors including experience, integrity and judgement of character. However, the Board has a clear strategy in place to refresh the Board on an ongoing basis, as set out in the Chairman's Statement, and also undertakes Directors evaluations set out in the Report of the Directors.

In the past the Board has identified Mr Robertson as a non-independent Director, given his previous employment with the Investment Manager. Mr Robertson retired from Ignis Investment Services Limited in August 2012. Ignis Investment Services Limited ceased to be the Investment Manager of the Company on 29 December 2015 following the takeover of this Company by Standard Life Investments earlier that year. The Board now believes that the link between Mr Robertson and the Investment Manager has been significantly diluted through both the passage of time and corporate activity and that this is no longer a reason for him to be deemed non-independent. In addition, the Board recognises that Mr Robertson, in his dealings with the Manager, has always conducted himself in an independent and transparent manner and hence believe that Mr Robertson is now to be treated as independent.

As Mr Robertson is now considered to be independent by the Board, there is no longer a relationship between a Director and the Phoenix Concert Party that would cause the Phoenix Concert Party to be, or presumed to be, acting in concert with the Directors. Following discussions between the Company and the Takeover Panel, the Takeover Panel has agreed, on an ex parte basis, that, under Rule 37.1 of the Takeover Code and the notes to that Rule, the Phoenix Concert Party should be treated as an "innocent bystander" in relation to any increase in its holdings of Shares as a result of the buyback of shares by the Company and will not therefore be required to make an offer under Rule 9 of the Takeover Code as a result of any increase in its holding caused by such a buyback.

New Directors follow an induction process, including input from the Investment Manager, Secretary and Corporate Broker, on joining the Board and all Directors receive other relevant training as necessary.

The Company has no executive Directors or employees. A management agreement between the Company and its Investment Manager sets out the matters over which the Investment Manager has authority and the limits beyond which Board approval must be sought. All other matters, including strategy, investment and dividend policies, gearing, and corporate governance procedures, are reserved for the approval of the Board of Directors. The Board currently meets at least quarterly and receives full information on the Company's investment performance, assets, liabilities and other relevant information in advance of Board meetings. In addition the Board has many ad hoc meetings and an annual strategy day.

Board Committees

The Board has appointed five committees to cover specific operations: Audit Committee, Management Engagement Committee, Nominations Committee, Property Valuation Committee and Risk Committee. Copies of the terms of reference of each committee are available on the Company's website, or upon request from the Company. The Board perform a deep dive analysis of the various parts of the business through the Committees and receives reports from the Committee Chairman highlighting matters requiring the Board's further attention or noting.

Audit Committee

Information regarding the composition, responsibilities and activities of the Audit Committee is set out in the Audit Committee Report on pages 43–44.

Management Engagement Committee

The Management Engagement Committee comprises all independent Directors of the Company and is chaired by Mrs Sandra Platts.

The Management Engagement Committee has met twice in 2016. The purpose of the Committee is to review the terms of the agreements with the Manager including, but not limited to, the management fee and also to review the performance of the Manager in relation to the achievement of the Company's objectives. These reviews have been conducted during the year and the outcomes are noted below.

Ignis Fund Managers Limited was appointed as the Alternative Investment Fund Manager ("AIFM") of the Company from 18 July 2014. Following the takeover of Ignis Asset Management by Standard Life Investments Limited in 2014, the Board appointed Standard Life Investments (Corporate Funds) Limited as AIFM on 29 December 2015. A summary of the current contract between the Company and Standard Life Investments (Corporate Funds) Limited in respect of management services provided is given in note 3 to the accounts.

The Management Engagement Committee has considered the investment performance of the Company and the capability and resources of the Investment Manager to deliver satisfactory investment performance. They also considered the length of the notice period of the investment management contract and the fees payable to the Investment Manager, together with the standard of the other services provided.

Following this review, it is the Directors' opinion that the continuing appointment of the Investment Manager on the terms agreed is in the interests of shareholders as a whole due to the strength and quality of the management team, performance achieved and the Investment Manager's commitment to the sector.

The Management Engagement Committee has also conducted reviews of the Company's other service providers, rating each provider on communication skills, technical and market knowledge, cost effectiveness and quality of staff. Where appropriate, the Investment Manager provided input. The outcome of these reviews has been satisfactory.

Nominations Committee

The Nominations Committee comprises all independent Directors of the Company and is chaired by Mr Andrew Wilson. The Nominations Committee considers appointments of new Directors, undertaking a thorough and open process involving, where appropriate, professional recruitment consultants and committee interviews with candidates whose skills have been identified as complimentary to the existing Board. The Board and Committee are cognisant of the debate around the recommendations of the Davies Report on Women on Boards and recognises the benefits of diversity in its broadest sense and the value this brings to the Company in terms of skills, knowledge and experience. Consideration of succession planning, Directors' fees and remuneration policy is also undertaken by the Nomination Committee. The Nominations Committee met twice during the year, once to consider the appointment of Mr Michael Ayre and once to consider the level of Directors' fees.

Property Valuation Committee

The Property Valuation Committee comprises of all of the Directors and is currently chaired by Mr Michael Ayre, having been chaired by Mr Andrew Wilson for part of the year. Committee members meet CBRE, the independent valuer to the Company, and representatives of Standard Life Investments at least twice a year and report back to the Board on the process for arriving at independent valuations and on any issues that arise in relation to this process.

Risk Committee

The Risk Committee was established on 21 September 2016, and comprises all of the Directors and is chaired by Mr John Robertson. The Board established the Risk Committee to ensure that proper consideration of risk is undertaken in all aspects of the Company's business on a regular basis. The duties of the Risk Committee include the consideration of matters relating to the risk profile of the Company, including an assessment of risk appetite, risk tolerance and risk strategy, and the regular review of principal risks, seeking assurance that these risks are appropriately rated and ensuring that appropriate risk mitigation is in place. The Risk Committee also reviews the Investment Manager's risk processes and internal controls and ensures that risk applying to property acquisitions and disposals is fully considered. The Risk Committee had its first meeting in December 2016 and will meet quarterly going forward.

Directors Meeting Attendance Summary

The table below sets out the number of Board and Committee meetings all held during the year and the number attended by each Director post their appointment date. In addition to the below, there were 32 ad hoc meetings held during the year. All meetings were held outside the UK.

	Board of Directors		Audit Committee		Management Engagement Committee		Nominations Committee		Property Valuation Committee		Risk Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Andrew Wilson	4	4	4	3	2	2	2	2	4	4	1	1
Michael Ayre	4	4	4	3	2	2	1	1	4	4	1	1
Ken McCullagh	4	4	4	4	2	2	2	2	4	4	1	1
Sandra Platts	4	4	4	4	2	2	2	2	4	4	1	1
John Robertson	4	4	n/a	n/a	n/a	n/a	n/a	n/a	4	4	1	1
Christopher Hill retired 16 June 2016	2	2	2	2	1	1	1	—	2	2	n/a	n/a

The Company places great importance on communication with its shareholders and analysts and welcomes their views. The Manager and Broker of the Company meet existing and potential shareholders.

Internal Controls

The Board is responsible for the Company's system of internal control and for reviewing and monitoring its effectiveness. The Board has therefore established an ongoing process designed to meet the particular needs of the Company in managing the risks to which it is exposed, consistent with the guidance in the Financial Reporting Council publication 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting'.

The process is based principally on the Investment Manager's existing risk-based approach to internal control whereby a risk matrix is created that identifies the key functions carried out by the Investment Manager and other service providers, the individual activities undertaken within those functions, the risks associated with each activity and the controls employed to minimise those risks. A residual risk rating is then applied. The risk matrix is regularly updated and the Risk Committee is provided with regular reports highlighting all material changes to the risk ratings and confirmation of the action which has been, or is being, taken. A formal annual review of these procedures is carried out by the Risk Committee and includes consideration of ISAE 3402 and similar reports issued by the Investment Manager and other service providers. In addition, the Board also receives quarterly updates from both the Compliance and Internal Audit departments of the Investment Manager on areas that specifically affect the Company. Compliance reports are also received from the administrator on a quarterly basis.

Internal control procedures have been in place throughout the period and up to the date of approval of this Report, and the Board is satisfied with their effectiveness. These procedures are designed to manage rather than eliminate risk and, by their nature, can only provide reasonable, but not absolute, assurance against material misstatement or loss. At each Board meeting the Board monitors the investment performance of the Company in comparison to its stated objective and against comparable companies. The Board also reviews the Company's activities since the previous Board meeting to ensure that the Investment Manager adheres to the agreed investment policy and approved investment guidelines and, if necessary, approves changes to such policy and guidelines. In addition, at each Board meeting, the Board receives reports from the Secretary in respect of compliance matters and duties performed on behalf of the Company including conflicts of interest.

The Company formerly appointed Ignis Fund Managers Limited (up until 29 December 2015) and now Standard Life Investments (Corporate Funds) Limited as its AIFM and formerly Citibank International PLC (up until 29 December 2015), now Citibank International Limited as its Depositary. The Depositary's responsibilities include cash monitoring, safe keeping of the Company's financial instruments and monitoring the Company's compliance with investment limits and leverage requirements. The AIFM has a permanent risk management function to ensure that effective risk management policies and procedures are in place to monitor compliance with risk limits. The AIFM has a risk policy which covers the risks associated with the management of the portfolio and the adequacy and appropriateness of this policy is reviewed at least annually.

The Board has reviewed the need for an internal audit function. The Board has decided that the systems and procedures employed by the Investment Manager and the Secretary, including both their internal audit functions and the work carried out by the Company's external auditors, provide sufficient assurance that a sound system of internal control, which safeguards shareholders' investments and the Company's assets, is maintained. An internal audit function specific to the Company is therefore considered unnecessary.

Relations with Shareholders

The Company places great importance on communication with its shareholders and analysts and welcomes their views. The Manager and Broker of the Company meet existing and potential shareholders on a regular basis and the Board receives regular reports on the views of shareholders from these meetings. In addition the Chairman, where possible, meets larger shareholders annually and other Directors are available to meet shareholders if required. The Annual General Meeting of the Company and also the annual and interim results presentations provides a forum, both formal and informal, for shareholders to meet and discuss issues with the Directors and Investment Manager of the Company.

Approved by the Board on 19 April 2017.

Andrew Wilson Director	Ken McCullagh Director

AUDIT COMMITTEE REPORT

Composition

The Audit Committee, which is chaired by Mr Ken McCullagh, operates within well-defined written terms of reference, which are available on the Company's website. Mr John Robertson, having been deemed independent, will now be eligible to join the committee. Given the non-executive nature of the Board, the Committee also believe it is appropriate for the Chairman of the Company to sit on the Audit Committee. Within the membership of the Committee, Mr Ken McCullagh, the Chairman, and Mr Michael Ayre are qualified accountants, as is Mr John Robertson.

Responsibilities

The main responsibilities of the Audit Committee are as follows:

- Review the Annual and Interim Accounts and challenge where necessary the actions and judgements of the Company's Manager;
- Review and monitor the internal controls and risk management systems on which the Company is reliant;
- Determine the terms of appointment of the auditor, together with its remuneration;
- To advise the Board on whether the Annual Report and Accounts, taken as a whole are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy; and
- Assess performance of the auditor and effectiveness of the audit process.

The Audit Committee is also the channel through which the auditor reports to the Board of Directors. It meets at least three times a year to take account of the requirements placed on audit committees by the UK Corporate Governance Code and AIC Code. The Audit Committee considers any matters which the auditor wishes to communicate to the Audit Committee and, through them, to the Board of Directors. This provides a forum for the external auditor to give their views about significant qualitative aspects of the Company's accounting practices and to draw to the attention of the Audit Committee any significant difficulties that they encountered during the audit, any substantial uncorrected misstatements, any disagreements with management and any other matters which they felt it appropriate to raise. The auditor attends two Audit Committee meetings a year in person.

Significant Issues

At a planning meeting of the Audit Committee with the auditor, the scope and timing of the audit were agreed and it was confirmed that the Directors had no knowledge of any fraud within the Company; it was agreed that the significant issues in the audit should be the valuations of the properties and the accuracy of income recognition in the Company and set out below is how the Committee considered these issues during its review of the financial statements.

Valuation of Properties: How was the issue addressed?

The valuation of properties is undertaken in accordance with the accounting policy disclosed in note 1(h) to the accounts. The process adopted in the valuation of the portfolio and the valuations themselves are considered by the Property Valuation Committee, representatives of which met the external valuer, along with the Manager, as part of the year end valuation process. The Chairman of this Committee reported to the Audit Committee in March 2017 and indicated that the following issues were discussed in the meeting with the external valuers:

- Market review and outlook;
- The level of yields on properties within the portfolio;
- Letting activity within the portfolio;
- Rental value and void changes; and
- Comparable evidence relating to the valuation of the properties.

Particular focus was given to the underlying yields applied to a number of the properties and whether they appropriately reflected the comparable evidence, letting activity and the property market as a whole. Following this meeting and subsequent discussions with the Investment Manager, a value of £1,270,624,000 was agreed as the valuation of the property portfolio as at 31 December 2016. The Audit Committee considered the report by the Chairman of the Property Valuation Committee along with a summary of the valuation and its key movements by the Investment Manager and agreed that this valuation was appropriate for the financial statements and that a robust process of analysis had been followed. In terms of existence of the properties, the Committee noted the procedures that the Manager has in place to ensure correct approval and title to all properties held which include any property transaction documentation having to be approved and signed by the Board irrespective of its value and the obligations on the Company's solicitors to ensure good and marketable title. In addition, as part of the external audit, the Committee sought assurance from the auditor prior to sign off of the financial statements that the confirmation of all titles has been included as part of the audit work undertaken.

Recognition of Rental Income: How was the issue addressed?

The recognition of rental income is undertaken in accordance with the accounting policy disclosed in note 1(e) to the accounts. The Committee considered the processes and controls the Manager has in place to ensure the completeness and accuracy of income. These include data input checks, rent demand reconciliations and rent arrear reconciliations. In addition the Committee also considered the various reports provided by the Investment Manager and reviewed on a quarterly basis during the year which included the following:

- Portfolio Yield summaries;
- Movement in annualised contracted rent;
- Quarterly Income Changes with details of lease activity in the quarter;
- Rent collection percentages;
- Rental arrears; and
- Detailed quarterly financial reporting detailing out the main reason for revenue movements in the quarter.

AUDIT COMMITTEE REPORT
Continued

The Audit Committee concluded that, given the controls and reporting in place throughout the year, the rental income number included in the financial statements of £68,571,000 was appropriate.

Taxation: How was the issue addressed?

Taxation is undertaken in accordance with the accounting policy disclosed in note 1(g) to the accounts. Based on the tax computations submitted to HMRC which showed that the Group had over £50 million of tax losses, the Committee noted that there was potential for a deferred tax asset to be recognised. Detailed forecasts prepared by the Investment Manager indicated that, following the refinancing of the internal loan notes in the year, the Group would generate rental income profits and hence the losses referred to above would be utilised resulting in the requirement to provide for a net deferred tax asset of £6,515,000. In addition to this, the Committee recognised that Brixton Radlett Property Limited ("BRPL"), being a UK registered Company, was not covered by the tax losses previously built up and hence would have to provide for tax on its rental profits for the year. A provision of £117,000 has been made in the financial statements being an estimate of the tax payable by ("BRPL") on its net rental profits during the year.

Review of Auditor

The objectivity of the auditor is reviewed by the Audit Committee, which also considers the terms under which the external auditor is appointed to perform non-audit services. The objectivity and independence of the auditor is safeguarded by obtaining assurances from the auditor that adequate policies and procedures exist within its firm to ensure the firm and its staff are independent of the Company by reason of family, finance, employment, investment and business relationships (other than in the normal course of the business) and enforcing a policy concerning the provision of non-audit services by the auditor which governs the types of work which are excluded. The Audit Committee reviews the scope and results of the audit including the following areas:

- Quality of audit work including ability to resolve issues in a timely manner;
- Working relationship with the Committee and Manager;
- Suitably qualified personnel involved in the audit; and
- Cost effectiveness and the independence and objectivity of the auditors, with particular regard to non-audit fees.

The performance and effectiveness of the auditors in relation to the above points was considered through a formal evaluation template completed by the Committee and the Managers.

The Audit Committee considers that it received all necessary information from the Company's service providers as well as from the external auditor in order for it to compile the necessary disclosures. The Committee noted the full co-operation of all parties in producing the Annual Report and no difficulties or disagreements were observed. Following the completion of the audit, the Audit Committee and Board followed a systematic approach to evaluate the auditor and the effectiveness of the audit process and found this to be satisfactory.

The Audit Committee conducted an audit tender process during 2015 and recommended to the Board that Deloitte LLP be appointed as auditor for the Group for the year ended 31 December 2016. This appointment was approved by shareholders at the 2016 AGM. The lead audit partner is Mr John Clacy. Prior to the appointment of Deloitte LLP, Ernst & Young LLP acted as auditor for the Group from 2006 to 2015. Details of the amounts paid to Deloitte LLP during the year for audit fees is set out in note 4 to the accounts.

In relation to non-audit fees, these amounted in aggregate to £0 (2015: £60,250) for the year ended 31 December 2016. Where any non-audit fee is expected to exceed £25,000, the Company operates a policy under which specific prior approval must be given by the Committee. Notwithstanding the provision of such non-audit services, the Audit Committee considers Deloitte LLP to be independent, given the safeguards put in place by Deloitte LLP to ensure independence.

Recommendation to the Board

Following its review of the Annual Report and Accounts for the year ended 31 December 2016, the Audit Committee has advised the Board that its considers that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders and other users to assess the Company's position, performance, business model and strategy.

The Audit Committee is able to give this advice on the basis that it has carefully scrutinised the Annual Report and Accounts document, which is prepared by the Manager and subsequently subject to external audit, specifically focusing on the significant issues detailed in this Report. In its consideration of the document, the members of the Audit Committee put themselves in the position of a shareholder and considered carefully whether the comments made are consistent with their view of the overall performance of the Company during the period under consideration. Specifically, consideration has been given to the Financial and Property Highlights section to ensure that the points raised in this have been selected so as to give a fair picture of the Company's position and that the performance data in the document has not been selected so as to give a misleadingly optimistic view of the Company. The Audit Committee has also critically reviewed the Investment Manager's report to ensure that the comments made in this are consistent with their knowledge of the Company and with the figures in the accounts. As with any Company, there are some elements in the accounts that are inevitably more complex than others and the Audit Committee has been at pains to have these expressed in clear language so as to make them as understandable as possible.

Ken McCullagh
Chairman of the Audit Committee
19 April 2017

DIRECTORS' REMUNERATION REPORT

This Remuneration Report comprises two parts:

- Remuneration Policy, which is subject to a binding shareholder vote every three years.
- An annual report on the implementation of remuneration, which provides information on how the policy has been applied during the year and which will be subject to an advisory vote on the level of remuneration paid during the year as set out in the Implementation Report.

Remuneration Policy

This part of the Remuneration Report provides details of the Company's Remuneration Policy for Directors of the Company. This policy takes into consideration the principles of the UK Corporate Governance Code and the AIC's recommendations regarding the application of those principles to investment companies. As the Company has no employees and the Board is comprised wholly of non-executive Directors and given the size and nature of the Company, the Board has not established a separate Remuneration Committee. Consideration of Directors' fees and remuneration policy is undertaken by the Nominations Committee.

The Directors are non-executive and their fees are set within the limits of the Company's Articles of Association which limit the aggregate fees payable to the Board of Directors per annum. The level of cap may be increased by shareholder resolution from time to time. Subject to this overall limit, the Board's policy is that the remuneration of non-executive Directors should reflect the nature of their duties, responsibilities and the value of their time spent and be fair and comparable to that of other comparable vehicles that are similar in size, have a similar capital structure and have a similar investment objective.

Fees are annually reviewed against comparable vehicles, and other factors, and if considered appropriate, increased accordingly. The current fee levels are as follows:

	31 December 2016 £	31 December 2015 £
Chairman	50,000	50,000
Chairman of Audit Committee	40,000	40,000
Director	35,000	35,000

Appointment

- The Company only intends to appoint non-executive Directors;
- All the Directors are non-executive appointed under the terms of Letters of Appointment;
- Directors must retire and be subject to election at the first AGM after their appointment, and annually thereafter;
- New appointments to the Board will be placed on the fee applicable to all Directors at the time of appointment (currently £35,000);
- No incentive or introductory fees will be paid to encourage a Directorship;
- The Directors are not eligible for bonuses, pension benefits, share options, long term incentive schemes or other benefits; and
- The Company indemnifies its Directors for all costs, charges, losses, expenses and liabilities which may be incurred in the discharge of duties.

Performance, Service Contracts, Compensation and Loss of Office

- The Directors' remuneration is not subject to any performance related fee;
- No Director has a service contract;
- No Director was interested in contracts with the Company during the period or subsequently;
- The terms of appointment provide that a Director may be removed without notice;
- Compensation will not be due upon leaving office; and
- No Director is entitled to any other monetary payment or any assets of the Company.

Directors' & Officers' liability insurance cover is maintained by the Company on behalf of the Directors.

The Remuneration Policy stated above was approved by shareholders at the 2016 AGM. There have been no changes to the Policy since then. It is the Board's intention that the Policy be put to a shareholders' vote every three years and an ordinary resolution in this regard will be proposed at the AGM in 2019.

Implementation Report

Aggregate Fees

Article 79 of the Company's Articles of Association currently limits the aggregate fees payable to the Board of Directors to a total of £300,000 per annum. No change to this limit is proposed for the forthcoming year.

Directors' Remuneration Rates

Following a review by the Board of Directors' remuneration which took into account the nature of their duties, responsibilities and the value of their time spent as well as a review of other comparable vehicles that are similar in size, Directors' remuneration for the forthcoming financial year will be as follows:

	31 December 2017 £	31 December 2016 £
Chairman	55,000	50,000
Chairman of Audit Committee	44,500	40,000
Chair of Risk Committee	39,250	—
Chair of Management Engagement Committee	39,250	—
Chair of Property Valuation Committee	39,250	—
Director	37,500	35,000

DIRECTORS' REMUNERATION REPORT
Continued

Following the acquisition of Brixton Radlett Property Limited ("BRPL"), a UK Limited Company, in September 2015 the Board recognised the additional responsibility placed on the two Board members who became Directors of BRPL, Mr Andrew Wilson (Chairman) and Mr John Robertson (Chair of the Risk Committee). Accordingly both Directors were awarded an additional fee of £2,500 starting from the date they became Directors of BRPL in addition to the fees outlined above. It is the intention of the Board that this additional remuneration will cease to be payable if and when BRPL is wound up. Rates for the entire Board will be reviewed again in 2017.

Company Performance

Although the Company has appointed Standard Life Investments (Corporate Funds) Limited as an external Investment Manager pursuant to the terms of the investment management agreement set out in note 2 to the accounts, the Board is responsible for the Company's investment strategy and performance. The following graph compares the total return (assuming all dividends are reinvested) to ordinary shareholders compared with the total return on the IPD Benchmark over a five year period to 31 December 2016 (rebased to 100 at 31 December 2011).

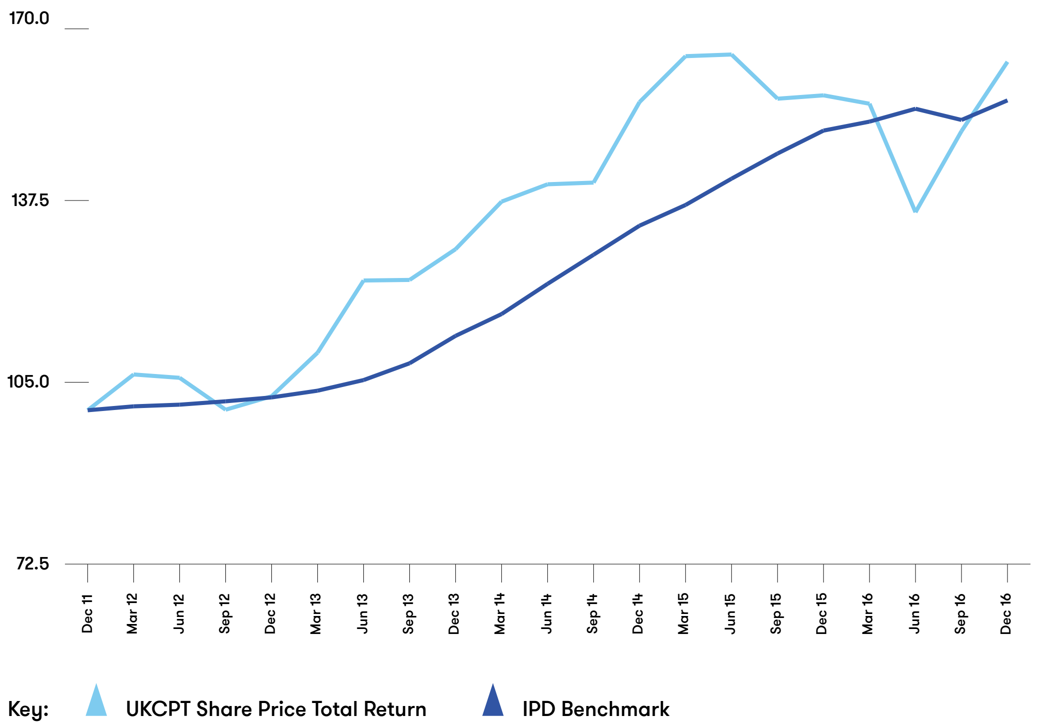
Fees Payable (audited)

The total fee payable to each Director who served during the present and previous financial year of the Company is shown in the table below.

	2016	2015
Andrew Wilson	46,113	40,719
Michael Ayre*	29,693	—
Ken McCullagh	40,000	45,000
Sandra Platts	35,000	40,000
John Robertson	37,500	40,719
Christopher Hill**	22,912	55,000
Total	211,218	221,438

* Appointed 24 February 2016
** Retired 16 June 2016

TOTAL RETURN INDEX



Source: IPD, Standard Life Investments

Fees are pro-rated where a change or appointment takes place during a financial year. The 2015 payments include an additional fee of £5,000 paid to each Director in recognition of additional work undertaken in the debt restructuring in April 2015. There were no payments to third parties from the fees referred to in the table above.

The table below shows the actual expenditure during the year in relation to Directors' remuneration and shareholder distributions

	Year to 31 December 2016	Year to 31 December 2015
Aggregate Directors' Remuneration	£211,218	£221,438
Aggregate Shareholder Distributions	£47,818,378	£47,818,378

At the Annual General Meeting in June 2016 the results in respect of the resolution to approve the Directors Remuneration Report were as follows.

Percentage of votes cast	For 96.9	Against 3.1

Directors' Interests in the Company

The Directors are not required to have a shareholding in the Company. The Directors' interests in the share capital of the Company are shown in the Report of the Directors on page 35.

Approved by the Board on 19 April 2017.

Andrew Wilson
Director

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are responsible for preparing the Annual Report and the Group financial statements in accordance with applicable Guernsey law and those International Financial Reporting Standards ("IFRS") as have been adopted by the European Union. They are also responsible for ensuring that the Annual Report includes information required by the Rules of the UK Listing Authority.

The Directors are required to prepare Group financial statements for each financial year which give a true and fair view of the financial position of the Group and the financial performance and cash flows of the Group for that period. In preparing those Group financial statements the Directors are required to:

- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;
- state that the Group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the Group financial statements comply with the Companies (Guernsey) Law 2008. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for ensuring that the Group complies with the provisions of the Listing Rules and the Disclosure Rules and Transparency Rules of the UK Listing Authority which, with regard to corporate governance, require the Group to disclose how it has applied the principles, and complied with the provisions, of the UK Corporate Governance Code applicable to the Group.

We confirm that to the best of our knowledge:

- the Group financial statements, prepared in accordance with the IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and comply with the Companies Law;
- that in the opinion of the Board, the Annual Report and Accounts taken as a whole, is fair, balanced and understandable and it provides the information necessary to assess the Group's position, performance, business model and strategy; and
- the Strategic Report includes a fair review of the progression and performance of the business and the position of the Group together with a description of the principal risks and uncertainties that it faces.

On behalf of the Board

Andrew Wilson
Director
19 April 2017

Independent Auditor's Report and Financial Statements

UK Commercial Property Trust

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UK COMMERCIAL PROPERTY TRUST LIMITED

OPINION ON THE FINANCIAL STATEMENTS OF UK COMMERCIAL PROPERTY TRUST LIMITED

In our opinion the financial statements:
give a true and fair view of the state of the group's affairs as at 31 December 2016 and of the group's profit for the year then ended;
have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
have been prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

The financial statements that we have audited comprise:
the Consolidated Statement of Comprehensive Income;
the Consolidated Balance Sheet;
the Consolidated Statement of Changes in Equity;
the Consolidated Cash Flow Statement; and
the related notes 1 to 21.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

SUMMARY OF OUR AUDIT APPROACH

Key risks

The key risks that we identified in the current year were:

- Investment property valuation
- Taxation
- Revenue recognition

Materiality

The materiality that we used in the current year for the financial statements as a whole was £11.2m which was determined on the basis of 1% of Net Asset Value at 31 December 2016.

Scoping

All audit work for the group was performed directly by the group audit engagement team.

GOING CONCERN AND THE DIRECTORS' ASSESSMENT OF THE PRINCIPAL RISKS THAT WOULD THREATEN THE SOLVENCY OR LIQUIDITY OF THE GROUP

We have reviewed the directors' statement regarding the appropriateness of the going concern basis of accounting and the directors' statement on the longer-term viability of the group contained within the report of the directors on page 36 and the strategic report on page 14.

We are required to state whether we have anything material to add or draw attention to in relation to:

- the directors' confirmation on page 15 that they have carried out a robust assessment of the principal risks facing the group including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 12–14 that describe those risks and explain how they are being managed or mitigated;
- the directors' statement on page 36 about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and
- the directors' explanation on page 14 as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We confirm that we have nothing material to add or draw attention to in respect of these matters.

We agreed with the directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

INDEPENDENCE

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and confirm that we are independent of the group and we have fulfilled our other ethical responsibilities in accordance with those standards.

We confirm that we are independent of the group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UK COMMERCIAL PROPERTY TRUST LIMITED
Continued

OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

Investment property valuations

Risk description	How the scope of our audit responded to the risk	Key observations
Valuation of investment properties is the key driver of the Group's net asset value. Valuations are inherently complex and require significant judgement and estimation around the key inputs and assumptions, including equivalent yields and market rent. The valuation of the investment property portfolio at 31 December 2016 amounted to £1,270m (2015: £1,311m). Refer to notes 1(b), 1(h) of Accounting policies on page pages 60 and 61, and note 9 on page 67 of the Notes to the Financial Statements.	▲ We assessed Management's review of the work of the external valuers; ▲ We assessed the external valuer's independence, integrity and competence; ▲ We met with the external valuers to discuss and challenge the valuation process, performance of the portfolio and significant assumptions and critical judgement areas. Assisted by our Real Estate specialists, we benchmarked these assumptions to relevant market evidence including specific property transactions and other external data on a sample basis; ▲ We performed audit procedures to assess the integrity of information provided to the external valuers, including testing on a sample basis back to underlying lease agreements; and ▲ We have reviewed the financial statements disclosures.	We conclude that the fair value of the Group's investment properties as determined by the Directors is appropriate.

Revenue recognition

Risk description	How the scope of our audit responded to the risk	Key observations
There is a risk that rental income received by the Group is not complete or not accurate, taking into account any lease incentives, and thus impacting the net revenue available for distribution to shareholders. Rental income recognised for the year ended 31 December 2016 amounted to £68.5m (2015: £69.5m). Refer to notes 1(e) of Accounting Policies on page 60, and note 2 on page 63 of the Notes to the Financial Statements.	▲ We performed analytical procedures over the Group's rental income for the year; ▲ We reviewed the Manager's Internal Controls Report for the operating effectiveness of management controls over the revenue cycle; ▲ We tested on a sample basis the rental income back to underlying lease agreements for accuracy and the apportionment for the current period; and ▲ We reviewed the lease incentive calculations on a sample basis and tested the data back to lease agreements.	We conclude that revenue recognition is appropriate.

Taxation

Risk description	How the scope of our audit responded to the risk	Key observations
The majority of the Group's rental income is subject to UK Income Tax under the UK's Non-resident landlord scheme. A significant amount of unutilised tax losses are available to be offset against future taxable rental income. The recognition of a deferred tax asset in respect of those losses is subjective and depends on the availability of future taxable profits against which those tax losses can be utilised. The Group recognised a deferred tax asset amounting to £6.5m as at 31 December 2016. Refer to notes 1(g) of Accounting Policies on page 60 and 61, and note 6 on page 64 of the Notes to the Financial Statements.	▲ We reviewed Management's future taxable profits forecasts to determine the rate at which accumulated tax losses are expected to be utilised, and we assessed the probability of recovery over the forecast period; ▲ We reviewed the tax workings and re-performed calculations of the possible deferred tax position; ▲ We enquired with Management and evaluated their assessment for the recognition of a deferred tax asset; and ▲ We reviewed the disclosures in the Annual Report.	We conclude that the recognition and recoverability of the deferred tax asset is appropriate.

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.

OUR APPLICATION OF MATERIALITY

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Group materiality

£11.2m

Basis for determining materiality

We have used 1% of the Net Asset Value as the benchmark for determining materiality.

Rationale for the benchmark applied

Net Assets is the key balance considered by the users of the financial statements which is consistent with the market approach for such entities. Net Assets was selected as investors are seeking capital appreciation in addition to dividend streams and the net asset value per share is an important indicator of performance to investors.

In addition to net assets, we consider EPRA Adjusted Profit After Tax as a critical performance measure for the Group and a measure which is widely used within the Real Estate industry. We applied a lower threshold of £2.5 million, which equates to 5% of that measure for testing all balances impacting that measure.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.56m, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UK COMMERCIAL PROPERTY TRUST LIMITED
Continued

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including internal controls, and assessing the risks of material misstatement at the Group level. The Group is audited by one audit team, led by the Senior Statutory Auditor. The audit is performed centrally, as the books and records for each entity within the Group are maintained at head office.

We audit all of the Group's subsidiaries which are subject to audit at statutory materiality level, which in many cases is substantially lower than Group materiality. We also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Adequacy of explanations received and accounting records

Under the Companies (Guernsey) Law, 2008 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- proper accounting records have not been kept by the parent company; or
- the financial statements are not in agreement with the accounting records.

We have nothing to report in respect of these matters.

Corporate Governance Statement

Under the Listing Rules we are also required to review part of the Corporate Governance Statement relating to the company's compliance with certain provisions of the UK Corporate Governance Code.

We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed.

We confirm that we have not identified any such inconsistencies or misleading statements.

OTHER MATTER

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the provisions of the UK Companies Act 2006 as if that Act had applied to the company.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the company's members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

John Clacy
Senior statutory auditor for and on behalf of Deloitte LLP Chartered Accountants and Recognised Auditor St Peter Port, Guernsey
19 April 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
REVENUE			
Rental income	2	68,573	69,558
(Losses)/Gains on investment properties	9	(5,944)	49,937
Interest income		455	606
Total income		63,084	120,101
EXPENDITURE			
Investment management fee	3	(8,870)	(8,832)
Direct property expenses	4	(3,716)	(3,915)
Other expenses	4	(3,362)	(3,669)
Total expenditure		(15,948)	(16,416)
Net operating profit before finance costs		47,136	103,685
FINANCE COSTS			
Finance costs	5	(8,101)	(8,441)
Loss on derecognition of interest rate swaps		—	(7,403)
		(8,101)	(15,844)
Net profit from ordinary activities before taxation		39,035	87,841
Tax credit/(charge)	6	6,151	(206)
Net profit for the year		45,186	87,635
OTHER COMPREHENSIVE INCOME TO BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS			
Net change in fair value of swap reclassified to profit and loss	13	—	7,403
(Loss)/Gain arising on effective portion of interest rate swap	13	(3,913)	1,023
Other comprehensive income		(3,913)	8,426
Total comprehensive income for the year		41,273	96,061
Basic and diluted earnings per share	8	3.48p	6.74p

All of the profit and total comprehensive income for the year is attributable to the owners of the Company. All items in the above statement derive from continuing operations. Additional EPRA performance measures are on pages 80–81.

The accompanying notes are an integral part of this statement.

CONSOLIDATED BALANCE SHEET

As at 31 December 2016

	Notes	2016 £'000	2015 £'000
NON-CURRENT ASSETS			
Investment properties	9	1,242,274	1,311,695
Deferred tax asset	6	6,515	—
Interest rate swap	13	—	3,038
		1,248,789	1,314,733
CURRENT ASSETS			
Investment properties held for sale	9	28,350	—
Trade and other receivables	11	16,035	11,379
Cash and cash equivalents		104,893	75,786
		149,278	87,165
Total assets		1,398,067	1,401,898
CURRENT LIABILITIES			
Trade and other payables	12	(25,141)	(23,828)
Interest rate swap	13	(1,340)	(2,879)
		(26,481)	(26,707)
NON-CURRENT LIABILITIES			
Bank loan	13	(248,532)	(248,004)
Interest rate swap	13	(2,414)	—
		(250,946)	(248,004)
Total liabilities		(277,427)	(274,711)
Net assets		1,120,640	1,127,187
REPRESENTED BY			
Share capital	14	539,872	539,872
Special distributable reserve		590,594	587,284
Capital reserve		(6,072)	(128)
Revenue reserve		—	—
Interest rate swap reserve		(3,754)	159
Equity shareholders' funds		1,120,640	1,127,187
Net asset value per share		86.2p	86.7p

The accounts on pages 56–78 were approved and authorised for issue by the Board of Directors on 19 April 2017 and signed on its behalf by:

Andrew Wilson
Director

Ken McCullagh
Director

The accompanying notes are an integral part of this statement.
Company Registration Number: 45387

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Notes	Share Capital £'000	Special Distributable Reserve £'000	Capital Reserve £'000	Revenue Reserve £'000	Interest Rate Swap Reserve £'000	Total £'000
At 1 January 2016		539,872	587,284	(128)	—	159	1,127,187
Net profit for the year		—	—	—	45,186	—	45,186
Other comprehensive income		—	—	—	—	(3,913)	(3,913)
Dividends paid	7	—	—	—	(47,820)	—	(47,820)
Transfer in respect of losses on investment	9	—	—	(5,944)	5,944	—	—
Transfer to special distributable reserve	1(o)	—	3,310	—	(3,310)	—	—
At 31 December 2016		539,872	590,594	(6,072)	—	(3,754)	1,120,640

For the year ended 31 December 2015

	Notes	Share Capital £'000	Special Distributable Reserve £'000	Capital Reserve £'000	Revenue Reserve £'000	Interest Rate Swap Reserve £'000	Total £'000
At 1 January 2015		539,872	597,406	(50,065)	—	(8,267)	1,078,946
Net profit for the year		—	—	—	87,635	—	87,635
Other comprehensive income		—	—	—	—	8,426	8,426
Dividends paid	7	—	—	—	(47,820)	—	(47,820)
Transfer in respect of gains on investment properties	9	—	—	49,937	(49,937)	—	—
Transfer from special distributable reserve	1(o)	—	(10,122)	—	10,122	—	—
At 31 December 2015		539,872	587,284	(128)	—	159	1,127,187

The accompanying notes are an integral part of this statement.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2016

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit for the year before taxation	39,035	87,841
Adjustments for:		
Losses/(Gains) on investment properties	5,944	(49,937)
Movement in lease incentive	(2,271)	(776)
Movement in provision for bad debts	(75)	(132)
(Increase)/Decrease in operating trade and other receivables	(2,310)	155
Increase in operating trade and other payables	1,421	790
Finance costs	8,125	8,280
Loss on derecognition of interest rate swaps	—	7,403
Cash generated by operations	49,869	53,624
Tax paid	(453)	—
Net cash inflow from operating activities	49,416	53,624
CASH FLOWS FROM INVESTING		
Purchase of investment properties	(1,911)	(149,379)
Sale of investment properties	45,595	163,999
Capital expenditure	(8,558)	(11,147)
Net cash inflow from investing activities	35,126	3,473
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Proceeds from utilisation of bank loan	—	18,177
Dividends paid	(47,820)	(47,820)
Bank loan interest paid	(6,467)	(5,285)
Payments under interest rate swap arrangement	(1,148)	(2,359)
Swap breakage costs	—	(7,403)
Net cash (outflow) from financing activities	(55,435)	(44,690)
Net increase in cash and cash equivalents	29,107	12,407
Opening balance	75,786	63,379
Closing cash and cash equivalents	104,893	75,786
REPRESENTED BY		
Cash at bank	44,821	20,379
Money market funds	60,072	55,407
	104,893	75,786

The accompanying notes are an integral part of this statement.

1. ACCOUNTING POLICIES

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

(a) Basis of Accounting

The consolidated accounts have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (the IASB), interpretations issued by the IFRS Interpretations Committee that remain in effect, and to the extent that they have been adopted by the European Union, applicable legal and regulatory requirements of Guernsey law and the Listing Rules of the UK Listing Authority.
The audited Consolidated Financial Statements of the Group have been prepared under the historical cost convention as modified by the measurement of investment property and derivative financial instruments at fair value. The consolidated financial statements are presented in pound sterling.

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year. There have been other new and amended standards issued or have come into effect in the European Union from 1 January 2016 but either these were not applicable or did not have a material impact on the annual consolidated financial statements of the Group and hence not discussed and are detailed below:

- Annual Improvements to IFRSs 2010–2012 Cycle
- Annual Improvements to IFRSs 2011–2013 Cycle
- Annual Improvements to IFRSs 2014–2016 Cycle

(b) Significant accounting judgements, estimates and assumptions

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the amounts recognised in the financial statements. However, uncertainty about these judgements, assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

Key estimation uncertainties

Fair value of investment properties: Investment property is stated at fair value as at the balance sheet date as set out in note 1(h) and note 9 to these accounts.

The determination of the fair value of investment properties requires the use of estimates such as future cash flows from the assets. The estimate of future cash flows includes consideration of the repair and condition of the property, lease terms, future lease events, as well as other relevant factors for the particular asset.

These estimates are based on local market conditions existing at the balance sheet date.

(c) Basis of Consolidation

The consolidated accounts comprise the accounts of the Company and its subsidiaries drawn up to 31 December each year. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. The Jersey Property Unit Trusts ("JPUTS") are all controlled via voting rights and hence those entities are consolidated.

(d) Functional and Presentation currency

Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which the Company and its subsidiaries operate ("the functional currency") which is pounds sterling. The financial statements are also presented in pounds sterling. All figures in the financial statements are rounded to the nearest thousand unless otherwise stated.

(e) Revenue Recognition

Rental income, excluding VAT, arising from operating leases (including those containing stepped and fixed rent increases) is accounted for in the Statement of Comprehensive Income on a straight line basis over the lease term. Lease premiums paid and rent free periods granted, are recognised as assets and are amortised over the non-cancellable lease term.

Interest income is accounted on an accruals basis and included in operating profit.

(f) Expenses

Expenses are accounted for on an accruals basis. The Group's investment management and administration fees, finance costs and all other expenses are charged through the Statement of Comprehensive Income. Service charge costs, to the extent they are not recoverable from tenants, are accounted for on an accruals basis and included in operating profit.

(g) Taxation

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date. Current income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss. Positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation are periodically evaluated and provisions established where appropriate.

Deferred income tax is provided using the liability method on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which deductible temporary differences, carried forward tax credits or tax losses can be utilised.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities.
In determining the expected manner of realisation of an asset the directors consider that the Group will recover the value of investment property through sale. Deferred income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss.

(h) Investment Properties

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

After initial recognition, investment properties are measured at fair value, with the movement in fair value recognised in the Statement of Comprehensive Income and transferred to the Capital Reserve. Fair value is based on the external valuation provided by CBRE Limited, chartered surveyors, at the Balance Sheet date. The assessed fair value is reduced by the carrying amount of any accrued income resulting from the spreading of lease incentives and/or minimum lease payments.

On derecognition, gains and losses on disposals of investment properties are recognised in the Statement of Comprehensive Income and transferred to the Capital Reserve.

Recognition and derecognition occurs on the unconditional exchange of signed contracts between a willing buyer and a willing seller.

Investment property is transferred to current assets held for sale when it is expected that the carrying amount will be recovered principally through sale rather than from continuing use. For this to be the case, the property must be available for immediate sale in its present condition, subject only to terms that are usual and customary for sales of such property and its sale must be highly probable.

The Group has entered into forward funding agreements with third party developers in respect of certain properties. Under these agreements the Group will make payments to the developer as construction progresses. The value of these payments is assessed and certified by an expert.

Investment properties are recognised for accounting purposes upon completion of contract. Properties purchased under forward funding contracts are recognised at certified value to date.

(i) Operating Lease Contracts – the Group as Lessor

The Group has entered into commercial property leases on its investment property portfolio.
The Group has determined, based on an evaluation of the terms and conditions of the arrangements that it retains all the significant risks and rewards of ownership of these properties and so accounts for leases as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

(j) Share Issue Expenses

Incremental external costs directly attributable to the issue of shares that would otherwise have been avoided are written off to capital reserves.

(k) Segmental Reporting

The Directors are of the opinion that the Group is engaged in a single segment of business being property investment in the United Kingdom.
The Directors are of the opinion that the four property sectors analysed throughout the financial statements constitute this single segment, and are not separate operating segments as defined by IFRS 8 Operating Segments.

(l) Cash and Cash Equivalents

Cash and cash equivalents are defined as cash in hand, demand deposits, and other short-term highly liquid investments readily convertible within three months or less to known amounts of cash and subject to insignificant risk of changes in value.

(m) Trade and Other Receivables

Trade receivables, which are generally due for settlement at the relevant quarter end are recognised and carried at the original invoice amount less an allowance for any uncollectable amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable, debts are over 90 days old or relate to tenants in administration. Bad debts are written off when identified.

(n) Trade and Other Payables

Rental income received in advance represents the pro-rated rental income invoiced before the year end that relates to the period post the year end. VAT payable is the difference between output and input VAT at the year end. Other payables are accounted for on an accruals basis and include amounts which are due for settlement by the Group as at the year end and are generally carried at the original invoice amount. An estimate is made for any services incurred at the year end but for which no invoice has been received.

(o) Reserves

Share Capital

This represents the proceeds from issuing ordinary shares.

Special Distributable Reserve

The special reserve is a distributable reserve to be used for all purposes permitted under Guernsey law, including the buyback of shares and the payment of dividends.

Capital Reserve

The following are accounted for in this reserve:

- gains and losses on the disposal of investment properties;
- increases and decreases in the fair value of investment properties held at the year end.

Revenue Reserve

Any surplus arising from the net profit on ordinary activities after taxation and payment of dividends is taken to this reserve, with any deficit charged to the special distributable reserve.

Interest Rate Swap Reserve

Any surplus/deficit arising from the marked to market valuation of the swap instrument is credited/charged to this account.

Treasury Share Reserve

This represents the cost of shares bought back by the Company and held in Treasury. The balance within this reserve is currently nil.

(p) Interest-bearing borrowings

All bank loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of arrangement costs associated with the borrowing. After initial recognition, all interest bearing loans and borrowings are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any loan arrangement costs and any discount or premium on settlement.

On maturity, bank loans are recognised at par, which is equivalent to amortised cost. Bank loans redeemed before maturity are recognised at amortised cost with any charges associated with early redemptions being taken to the Statement of Comprehensive Income.

(q) Derivative financial instruments

The Group uses derivative financial instruments to hedge its risk associated with interest rate fluctuations.

Derivative instruments are initially recognised in the Balance Sheet at their fair value split between current and non-current. Fair value is determined by reference to market values for similar instruments. Transaction costs are expensed immediately.

Gains or losses arising on the fair value of cash flow hedges in the form of derivative instruments are taken directly to Other Comprehensive Income. Such gains and losses are taken to a reserve created specifically for that purpose, described as the Interest Rate Swap Reserve in the Balance Sheet.

On termination the unrealised gains or losses arising from cash flow hedges in the form of derivative instruments, initially recognised in Other Comprehensive Income, are transferred to profit or loss.

The Group considers its interest rate swap qualifies for hedge accounting when the following criteria are satisfied:

- The instrument must be related to an asset or liability;
- It must change the character of the interest rate by converting a variable rate to a fixed rate or vice versa;
- It must match the principal amounts and maturity date of the hedged item; and
- As a cash flow hedge the forecast transaction (incurring interest payable on the bank loan) that is subject to the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect the profit or loss. The effectiveness of the hedge must be capable of reliable measurement and must be assessed as highly effective on an ongoing basis throughout the financial reporting periods for which the hedge was designated.

If a derivative instrument does not satisfy the Group's criteria to qualify for hedge accounting that instrument will be deemed as an ineffective hedge.

Should any portion of an ineffective hedge be directly related to an underlying asset or liability, that portion of the derivative instrument should be assessed against the Group's effective hedge criteria to establish if that portion qualifies to be recognised as an effective hedge.

Where a portion of an ineffective hedge qualifies against the Group's criteria to be classified as an effective hedge that portion of the derivative instrument shall be accounted for as a separate and effective hedge instrument and treated as other comprehensive income.

Gains or losses arising on any derivative instrument or portion of a derivative instrument which is deemed to be ineffective will be recognised in profit or loss. Gains and losses, regardless of whether related to effective or ineffective hedges, are taken to a reserve created specifically for that purpose described in the balance sheet as the Interest Rate Swap Reserve.

(r) New standards, amendments and interpretation not yet effective

There are a number of new standards, amendments and interpretations that have been issued but are not yet effective for this accounting year and have not been adopted early. Those standards which may affect the Group are listed below.

IFRS 9 — Financial Instruments

In July 2014, the IASB published the final version of IFRS 9 'Financial Instruments' which replaces the existing guidance in IAS 39 'Financial Instruments: Recognition and Measurement'. The IFRS 9 requirements represent a change from the existing requirements in IAS 39 in respect of financial assets.

The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value.

The standard eliminates the existing IAS 39 categories of held to-maturity, available-for-sale and loans and receivables.

For financial liabilities, IFRS 9 largely carries forward without substantive amendment the guidance on classification and measurement from IAS 39. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit is recorded in other comprehensive income rather than in profit or loss.

The standard introduces new requirements for hedge accounting that align hedge accounting more closely with risk management and establishes a more principles-based approach to hedge accounting. The standard also adds new requirements to address the impairment of financial assets and means that a loss event will no longer need to occur before an impairment allowance is recognised.

The standard will be effective for annual periods beginning on or after 1 January 2018, and is required to be applied retrospectively with some exemptions. The Group is yet to assess IFRS 9's full impact but it is not currently anticipated that this standard will have any material impact on the Group's financial statements as presented for the current year.

IFRS 15 — Revenue from Contracts

IFRS 15 Revenue from Contracts with Customers (effective 1 January 2018, and endorsed by the EU 31 October 2016) specifies how and when an entity should recognise revenue from contracts and enhances the nature of revenue disclosures.

The Group notes lease contracts within the scope of IAS 17 are excluded from the scope of IFRS 15. Rental income derived from operating leases is therefore out with the scope of IFRS 15. The group therefore does not anticipate IFRS 15 having a material impact on the Group's financial statement as presented for the current year.

The group notes under specific circumstances, certain elements of contracts the group may enter (for example, rental guarantees provided when selling a property) potentially fall within the scope of IFRS 15. The group does not have any contracts in place at 31 December 2016 it believes meet these specific criteria, but will review again at 31 December 2017.

The standard permits a modified retrospective approach. Financial statements will be prepared for the year of adoption (from 1 January 2018) by recognising a cumulative catch-up adjustment to opening retained earnings.

The group has not implemented the standard in advance of the effective date and it does not intend to do so.

IFRS 16 — Leases

IFRS 16 Leases (effective 1 January 2019) sets out the principle for the recognition, measurement, presentation and disclosure of leases for both the Lessee and Lessor.

As at the date of authorisation of these financial statements IFRS 16 has not yet been endorsed or adopted by the EU. The impact of this standard has not yet been assessed by the Group in full, but the Group is aware lessor accounting remains substantially unchanged and any impact is expected to be insignificant. A full impact assessment will however be concluded in due course.

Annual Improvements to IFRS

In addition to the above, Annual Improvements to IFRS 2012–2014 Cycle (effective 1 January 2016) have not been adopted early.

2. RENTAL INCOME

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Rental income	68,573	69,558

Included within rental income is amortisation of lease premiums and rent free periods granted.

BHS occupied one of the Company's retail units at The Parade, Swindon. Their lease contained rent free periods and fixed uplifts through to 2046. Due to BHS entering administration in the year, the lease was terminated resulting in a lease incentive asset of £2,426,000 being written off within rental income.

3. FEES

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Investment management fee	8,870	8,832

The Group's Investment Manager throughout the year was Standard Life Investments (Corporate Funds) Limited, who received an aggregate annual fee from the Group at an annual rate of 0.65 per cent of the Total Assets. The Investment Manager is also entitled to an administration fee which was reduced from £172,000 per annum to £100,000 per annum from 30 June 2015. The total paid in relation to this fee in the year was £100,000 (2015: £136,000). Both fees are payable quarterly in arrears. The Investment Management agreement is terminable by either of the parties to it on 12 months' notice.

4. EXPENSES

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
DIRECT PROPERTY EXPENSES		
Direct operating expenses arising from investment property that generated rental income during the period;	3,716	3,915
OTHER EXPENSES		
Professional fees (incl valuation fees)	2,547	2,886
Movement in bad debt provision	75	(132)
Directors' fees	215	196*
Administration fee	100	136
Administration and company secretarial fees	85	85
Regulatory fees	277	318
Auditor's remuneration for:		
Statutory audit	63	71
Non audit services – tax compliance and advisory services	—	60
Other expenses	—	49
	3,362	**3,669**

* This figure excludes Nil (2015: £25,000) payable to directors for additional work undertaken in relation to the debt refinancing. This cost has been allocated to loan set up fees and will be amortised over the lifetime of the loans.

5. FINANCE COSTS

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Interest on principal loan amount	6,063	5,677
Amounts payable in respect of interest rate swap arrangement	1,197	1,972
Facility fees	331	282
Amortisation of loan set up fees	510	510
	8,101	**8,441**

6. TAXATION

The Company owns five Guernsey tax exempt subsidiaries, UK Finance Holdings Limited (UKFH), UK Commercial Property GP Limited (GP), UK Commercial Property Holdings Limited (UKCPH), UK Commercial Property Estates Limited (UKCPEL) and UK Commercial Property Estates Holdings Limited (UKCPEH). GP and UKCPH are partners in a Guernsey Limited Partnership ("the Partnership") and own five Jersey Property Unit Trusts. UKCPEL owns three Jersey Property Unit Trusts. The Partnership, UKCPH and UKCPEL own a portfolio of UK properties and derived rental income from those properties. As the Partnership and the unit trusts are income transparent for UK tax purposes, the partners and unit holders are liable to UK income tax on their share of the net rental profits of the Partnership and unit trusts respectively. The entities directly owning UK property are also liable to UK income tax on their own net UK rental profits. All entities subject to UK income tax have elected to receive rental income gross under HMRC's non-resident landlord scheme.

A reconciliation of the income tax charge applicable to the results from ordinary activities at the statutory income tax rates to the charge for the year is as follows:

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Net profit before tax	39,035	87,841
UK income tax at a rate of 20 per cent	7,807	17,568
Effect of:		
Capital loss/(gains) on investment properties not taxable	2,554	(9,436)
Lease incentive adjustment not allowable for tax purposes	454	155
Capital gains realised not taxable	(1,819)	(706)
Income not taxable	(91)	(121)
Intercompany loan interest	(11,126)	(13,373)
Expenditure not allowed for tax purposes	2,585	3,169
Deferred tax asset not provided for	—	2,950
Total current tax charge	**364**	**206**
Net deferred tax asset	(6,515)	—
Total tax (credit)/charge	**(6,151)**	**206**

The components of the tax charge in the consolidated income statement are as follows:

RECONCILIATION OF CURRENT CORPORATION AND WITHHOLDING TAX IN THE CONSOLIDATED INCOME STATEMENT	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Corporation tax charge in the year	117	129
Withholding tax charge in the year	374	77
Adjustment in respect of prior year over provision	(127)	—
Total current tax charge	**364**	**206**

RECONCILIATION OF DEFERRED TAX IN THE CONSOLIDATED INCOME STATEMENT	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Deferred tax asset on tax losses	(8,428)	—
Deferred tax asset in respect of capital allowance timing differences	(337)	—
Deferred tax liability in respect of capital allowance timing differences	2,250	—
	(6,515)	—

The company owns one UK Limited Company, Brixton Radlett Property Limited ("BRPL"). As the losses of the Group cannot be used to offset the profits of BRPL, the profits of this Company are subject to corporation tax in the UK, at a rate of 20% during the period of ownership. In addition, as the inter-company debt in BRPL is payable to a Guernsey entity, withholding tax of 20% is suffered on the payment of this interest. It is estimated that for the year ended 31 December 2016 the total amount payable in corporation tax and withholding tax is £117,000 and £374,000 respectively, of which £117,000 remained payable at the year end.

The components of the deferred tax asset in the consolidated balance sheet are as follows:

RECONCILIATION OF DEFERRED TAX IN THE CONSOLIDATED BALANCE SHEET	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Deferred tax asset on tax losses	8,428	—
Deferred tax asset in respect of capital allowance timing differences	337	—
Deferred tax liability in respect of capital allowance timing differences	(2,250)	—
	6,515	—

The Group has unused tax losses carried forward of £50,437,000 (2014/2015: £33,204,000) based on the 2015/2016 tax returns to 5 April 2016. This figure is estimated to be £52,256,319 as at 31 December 2016, of which £10,118,753 have not been recognised in these financial statements as they relate to one group company that is not expected to recover its tax losses in the foreseeable future.

Deferred tax asset

During the year the Group refinanced all inter-company loans, the majority of which were due to expire on 30 September 2016. All loans were re-financed for a 12 year duration, at rates ranging from 4% to 4.43%. As a result of the refinance, the Group forecasts it will begin to utilise tax losses within certain subsidiaries built up since inception to offset future taxable profits. A deferred tax asset of £8,428,000 (2015:£nil) has therefore been recognised in the year.

A deferred tax asset of £337,000 (2015: £nil) has also been recognised in the year, on capital allowance balances of sold properties, where the group has retained the right to claim capital allowances after sale. A deferred tax liability of £2,250,000 (2015: £nil) has been recognised in the year, relating to capital allowances booked on properties remaining in the portfolio as at 31 December.

IAS 12 Income Taxes allows deferred tax assets and liabilities to be offset. A net deferred asset of £6,515,000 (2015: £nil) is therefore included in the consolidated balance sheet.

The Company and its subsidiaries are exempt from Guernsey taxation on non-Guernsey source income (which includes relevant Guernsey bank interest) under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989 as amended. A fixed annual fee of £1,200 per company is payable to the States of Guernsey in respect of this exemption. No charge to Guernsey taxation will arise on capital gains.

7. DIVIDENDS

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
DIVIDENDS ON ORDINARY SHARES		
2015 Fourth interim of 0.92p per share paid 26 February 2016 (2014 Fourth interim: 0.92p)	11,955	11,955
2016 First interim of 0.92p per share paid 31 May 2016 (2015 First interim: 0.92p)	11,955	11,955
2016 Second interim of 0.92p per share paid 31 August 2016 (2015 Second interim: 0.92p)	11,955	11,955
2016 Third interim of 0.92p per share paid 30 November 2016 (2015 Third interim: 0.92p)	11,955	11,955
	47,820	**47,820**

A fourth interim dividend of 0.92p was paid on 28 February 2017 to shareholders on the register on 16 February 2017. Although this payment relates to the year ended 31 December 2016, under International Financial Reporting Standards it will be accounted for in the year ending 31 December 2017.

8. BASIC AND DILUTED EARNINGS PER SHARE

The earnings per share (EPS) are based on the net profit for the year of £45,186,000 (2015: profit £87,635,000) and on 1,299,412,465 (2015: 1,299,412,465) ordinary shares, being the weighted average number of shares in issue during the year. As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

9. INVESTMENT PROPERTIES

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
FREEHOLD AND LEASEHOLD PROPERTIES		
Opening valuation	1,311,695	1,265,231
Purchases at cost	1,911	149,379
Capital expenditure	8,558	11,147
(Loss)/Gain on revaluation to fair value	(12,769)	47,185
Disposals at prior year valuation	(36,500)	(160,471)
Adjustment for lease incentives	(2,271)	(776)
Total Fair value at 31 December	**1,270,624**	**1,311,695**
Less: reclassified as held for sale	(28,350)	—
Fair value as at 31 December	**1,242,274**	**1,311,695**
(LOSSES)/GAIN ON INVESTMENT PROPERTIES AT FAIR VALUE COMPRISE		
Valuation (losses)/gains	(12,769)	47,185
Movement in provision for lease incentives	(2,271)	(776)
Gain on disposal	9,096	3,528
	(5,944)	**49,937**
GAIN ON INVESTMENT PROPERTIES SOLD		
Original cost of investment properties sold	(22,790)	(152,457)
Sale proceeds	45,595	163,999
Profit/(Loss) on investment properties sold	22,805	11,542
Recognised in previous periods	13,709	8,013
Recognised in current period	9,096	3,529
	22,805	**11,542**

Given the objectives of the Group and the nature of its investments, the Directors believe that the Group has only one asset class, that of Commercial Property.

CBRE Limited, (the "Property Valuer") completed a valuation of Group investment properties as at 31 December 2016 on the basis of fair value in accordance with the requirements of the Royal Institution of Chartered Surveyors (RICS) 'RICS Valuation – Professional Standards global, January 2014' and 'RICS Valuation – Professional Standards UK, January 2014 (revised April 2015)' (the 'Red Book'). For most practical purposes there would be no difference between Fair Value (as defined in IFRS 13) and Market Value. The Property Valuer, in valuing the portfolio, is acting as an 'External Valuer', as defined in the Red Book, exercising independence and objectivity. The Property Valuer's opinion of Fair Value has been primarily derived using comparable recent market transactions in order to determine the price that would be received to sell an asset in an orderly transaction between market participants at the valuation date. The fair value of these investment properties amounted to £1,280,755,000 (2015:£1,319,555,000). The difference between the fair value and the value per the consolidated balance sheet at 31 December 2016 consists of accrued income relating to the pre-payment for rent-free periods recognised over the life of the lease totalling £10,131,000 (2015: £7,861,000) which is separately recorded in the accounts as a current asset.

The Group has entered into leases on its property portfolio as lessor (See note 19 for further information).

- No one property accounts for more than 15 per cent of the gross assets of the Group.
- All leasehold properties have more than 60 years remaining on the lease term.
- There are no restrictions on the realisability of the Group's investment properties or on the remittance of income or proceeds of disposal.

However, the Group's investments comprise UK commercial property, which may be difficult to realise.

The property portfolio's fair value as at 31 December 2016 has been prepared adopting the following assumptions:

- That, where let, the Estimated Net Annual Rent (after void and rent free period assumptions) for each property, or part of a property, reflects the terms of the leases as at the date of valuation. If the property, or parts thereof, are vacant at the date of valuation, the rental value reflects the rent the Property Valuer considers would be obtainable on an open market letting as at the date of valuation.
- The Property Valuer has assumed that, where let, all rent reviews are to be assessed by reference to the estimated rental value calculated in accordance with the terms of the lease. Also there is the assumption that all tenants will meet their obligations under their leases and are responsible for insurance, payment of business rates, and all repairs, whether directly or by means of a service charge.
- The Property Valuer has not made any adjustments to reflect any liability to taxation that may arise on disposal, nor any costs associated with disposals incurred by the owner.
- The Property Valuer assumes an initial yield in the region of 3 to 7 per cent, based on market evidence. For the majority of the properties, with the reversionary yield being in the region of 4 to 7 per cent.
- The Property Valuer takes account of deleterious materials included in the construction of the investment properties in arriving at its estimate of Fair Value when the Investment Manager advises of the presence of such materials.

The majority of the leases are on a full repairing basis and as such the Group is not liable for costs in respect of repairs or maintenance to its investment properties.

The following disclosure is provided in relation to the adoption of IFRS 13 Fair Value Measurement. All properties are deemed Level 3 for the purposes of fair value measurement and the current use of each property is considered the highest and best use. There has been no transfers from Level 3 in the year. The fair value of completed investment property is determined using a yield methodology. Under this method, a property's fair value is estimated using explicit assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. As an accepted method within the income approach to valuation, this method involves the projection of a series of cash flows on a real property interest. To this projected cash flow series, an appropriate, market-derived discount rate (capitalisation rate) is applied to establish the present value of the cash inflows associated with the real property. The duration of the cash flow and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related lease up periods, re-letting, redevelopment, or refurbishment. The appropriate duration is typically driven by market behaviour that is a characteristic of the class of property. In the case of investment properties, periodic cash flow is typically estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance cost, agent and commission costs and other operating and management expenses. The series of periodic net cash inflows, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted. Set out below are the valuation techniques used for each property sector plus a description and quantification of the key unobservable inputs relating to each sector. There has been no change in valuation technique in the year.

Sector	Fair Value at 31 December 2016 (£m)	Valuation techniques	Unobservable inputs	Range (weighted average)
Industrial	405.9	Yield methodology	Annual rent per sq ft Capitalisation rate	£5–£19 (£9) 4.7%–7.1% (5.6%)
Office	263.9	Yield methodology	Annual rent per sq ft Capitalisation rate	£15–£58 (£38) 3.8%–7.7% (5.4%)
Retail	474.0	Yield methodology	Annual rent per sq ft Capitalisation rate	£2–£306 (£63) 3.8%–12.9% (5.5%)
Leisure	126.8	Yield methodology	Annual rent per sq ft Capitalisation rate	£13–£35 (£25) 5.1%–6 % (5.4%)

Sensitivity analysis

The table below presents the sensitivity of the valuation to changes in the most significant assumptions underlying the valuation of investment property.

Sector	Assumption	Movement	Effect on valuation
Industrial	Capitalisation rate	+ 50 basis points - 50 basis points	Decrease £34.9m Increase £42.4m
Office	Capitalisation rate	+ 50 basis points - 50 basis points	Decrease £25.9m Increase £31.9m
Retail	Capitalisation rate	+ 50 basis points - 50 basis points	Decrease £42.6m Increase £48.0m
Leisure	Capitalisation rate	+ 50 basis points - 50 basis points	Decrease £15.2m Increase £9.1m

Investment property valuation process

The valuations of investment properties are performed quarterly on the basis of valuation reports prepared by independent and qualified valuers and reviewed by the Property Valuation Committee of the Company.

These reports are based on both:

- Information provided by the Investment Manager such as current rents, terms and conditions of lease agreements, service charges and capital expenditure. This information is derived from the Investment Manager's financial and property management systems and is subject to the Investment Manager's overall control environment.
- Assumptions and valuation models used by the valuers — the assumptions are typically market related, such as yields. These are based on their professional judgment and market observation.

The information provided to the valuers and the assumptions and valuation models used by the valuers are reviewed by the Investment Manager. This includes a review of fair value movements over the period.

Asset held for sale

The asset shown on the Balance Sheet as held for sale at the year end is 13 Great Marlborough Street, London. The asset is shown at fair value in the Balance Sheet as a held for sale asset and continues to be valued by CBRE Limited using the method described in this note. The held for sale asset is included in the investment property table shown in this note. Any unrealised gain and loss on this asset is shown in the investment property table and in the consolidated statement of comprehensive income as gains/(losses) on investment properties.

The asset was sold by the Group on 13 January 2017 for a consideration of £30.5 million.

10. SUBSIDIARY UNDERTAKINGS

The Company owns 100 per cent of the issued ordinary share capital of UK Commercial Property Finance Holdings Limited (UKCFH), a company incorporated in Guernsey whose principal business is that of a holding company.

The Company owns 100 per cent of the issued share capital of UK Commercial Property Estates Holdings Limited (UKCPEH), a company incorporated in Guernsey whose principal business is that of a holding company. UKCPEH Limited owns 100 per cent of the issued share capital of UK Commercial Property Estates Limited, a company incorporated in Guernsey whose principal business is that of an investment and property company. UKCPEH also owns 100% of Brixton Radlett Property Limited, a UK company, whose principal business is that of an investment and property company.

UKCFH owns 100 per cent of the issued ordinary share capital of UK Commercial Property Holdings Limited (UKCPH), a company incorporated in Guernsey whose principal business is that of an investment and property company.

UKCFH owns 100 per cent of the issued share capital of UK Commercial Property GP Limited, (GP), a company incorporated in Guernsey whose principal business is that of an investment and property company.

UKCPT Limited Partnership, (GLP), is a Guernsey limited partnership, and it holds a portfolio of properties. UKCPH and GP, have a partnership interest of 99 and 1 per cent respectively in the GLP. The GP is the general partner and UKCPH is a limited partner of the GLP.

UKCFH owns 100 per cent of the issued share capital of UK Commercial Property Nominee Limited, a company incorporated in Guernsey whose principal business is that of a nominee company.

In addition the Group controls eight Jersey Property Unit Trusts (JPUTs) namely 176–206 High Street Kensington Unit Trust (wound up March 2017), Junction 27 Retail Unit Trust, Charles Darwin Retail Unit Trust, St George's Leicester Unit Trust, Kew Retail Park Unit Trust, Pride Hill Retail Unit Trust, Riverside Mall Retail Unit Trust and Rotunda Kingston Property Unit Trust. The principal business of the Unit Trusts is that of investment in property.

11. TRADE AND OTHER RECEIVABLES

	2016 £'000	2015 £'000
Rents receivable (net of provision for bad debts — see below)	2,603	1,163
Lease Incentive	10,131	7,860
Other debtors and prepayments	3,301	2,356
	16,035	**11,379**

Provision for Bad Debts as at 31 December 2015/2014	586	718
Movement in the year	75	(132)
Provision for Bad Debts as at 31 December 2016/2015	**661**	**586**

The ageing of these receivables is as follows:

	2016 £'000	2015 £'000
Less than 6 months	302	321
Between 6 and 12 months	211	145
Over 12 months	148	120
	661	**586**

Other debtors include tenant deposits of £3,038,000 (2015: £2,323,000).
All other debtors are due within one year. No other debts past due are impaired in either year.

12. TRADE AND OTHER PAYABLES

	2016 £'000	2015 £'000
Rental income received in advance	14,093	12,062
Investment Manager fee payable	2,256	2,266
VAT payable	590	1,230
Corporation and withholding tax payable	117	206
Other payables	8,085	8,064
	25,141	**23,828**

Other payables include tenant deposits of £3,038,000 (2015: £2,323,000). The Group's payment policy is to ensure settlement of supplier invoices in accordance with stated terms.

13. BANK LOAN AND INTEREST RATE SWAPS

	2016 £'000	2015 £'000
Total Facilities available	300,000	300,000
Drawn down:		
Barclays facility	150,000	150,000
Cornerstone facility	100,000	100,000
Set up costs incurred	(4,536)	(4,627)
Accumulated amortisation of set up costs	2,474	1,964
Accrued variable interest rate on bank loan	594	667
Total due	**248,532**	**248,004**

(i) Barclays Facility

The Group has a five year £150 million facility, maturing in April 2020, with Barclays Bank plc initially taken out in May 2011 and extended in April 2015. As at 31 December 2016 this entire loan was drawn down. The bank loan is secured on the property portfolio held by UKCPEL. Under bank covenants related to the loan UKCPEL is to ensure that at all times:

- The loan to value percentage does not exceed 60 per cent.
- Interest cover at the relevant payment date is not less than 160 per cent UKCPEL met all covenant tests during the year.

Interest rate exposure is hedged by the purchase of an interest rate swap contract. The notional amount of the swap and the swap term matches the loan principal and the loan term. As at 31 December 2016 the Group had in place one interest rate swap totaling £150 million with Barclays Bank plc (2015: £150 million). The interest rate swap effectively hedges the current drawn down loan with Barclays Bank plc.

Interest on the swap is receivable at a variable rate calculated on the same LIBOR basis as for the bank loan (as detailed below but excluding margins) and payable at a fixed rate of 1.30 per cent per annum on the £150 million swap. The fair value of the liability in respect of the interest rate swap contract at 31 December 2016 is £3,754,000 (2015: Asset of £159,000) which is based on the marked to market value.

Interest is payable by UKCPEL at a rate equal to the aggregate of LIBOR, mandatory costs of the Bank and a margin. The applicable margin is fixed at 1.5 per cent per annum and this was the applicable margin as at 31 December 2016 (2015: 1.50 per cent).

In addition to the above UKPCPEL has a £50 million revolving credit facility ("RCF") with Barclays Bank plc at a margin of 1.50 per cent above LIBOR available for four years but cancellable at any time. The RCF has a non-utilisation fee of 0.6 per cent per annum charged on the proportion of the RCF not utilised on a pro-rata basis. At 31 December 2016 the RCF remained unutilised.

(ii) Cornerstone Facility

The Group has a twelve year £100 million loan which is due to mature in April 2027 with Cornerstone Real Estate Advisers LLP, a member of the MassMutual Financial Services Group. The loan was taken out by UK Commercial Property Finance Holdings Limited (UKCFH). As at 31 December 2016 this entire loan was drawn down. The bank loan is secured on the portfolio of eight properties held within the wider Group. Under bank covenants related to the loan UKCFH is to ensure that at all times:

- The loan to value percentage does not exceed 75 per cent.
- Interest cover at the relevant payment date and also projected over the course of the proceeding 12 months is not less than 200 per cent.

UKCFH met all covenant tests during the year.

Interest is payable by UKCFH at a fixed rate equal to the aggregate of the equivalent 12 year gilt yield, fixed at the time of drawdown and a margin. This resulted in a fixed rate of interest payable of 3.03 per cent per annum. There are no interest rate swaps in place relating to this facility.

Swap Instruments

As at 31 December 2016 the Group had in place an interest rate swap instrument totalling £150 million which was deemed to be an effective hedge as per note 1(q).

The revaluation of this swap at the year end resulted in a loss on interest rate swaps of £3.9 million (2015: gain £1.0 million). Of the total loss arising on interest rate swaps, £3.9 million related to effective hedge instruments (2015: gain £1.0 million) which is credited through Other Comprehensive Income in the Statement of Comprehensive Income.

The valuation techniques applied to fair value the derivatives include the swap models including the CVA/DVA swap models, using present value calculations. The model incorporates various inputs including the credit quality of counterparties and forward rates.

The fair value of the interest rate swaps as at 31 December 2016 amounted to a liability of £3,754,000 (2015: Asset of £159,000). Based on current yield curves and non-performance risk, £1.3 million (2015: £2.9m) of this value is a liability which relates to the next 12 months and is therefore classified as a current liability. The remainder is classified as a long term liability.

14. SHARE CAPITAL ACCOUNTS

	2016 £'000	2015 £'000
SHARE CAPITAL		
Opening balance	539,872	539,872
Share Capital as at 31 December 2016	539,872	539,872

(number of shares in issue and fully paid at the year end being 1,299,412,465 (2015: 1,299,412,465)) of 25p each.

Ordinary shareholders participate in all general meetings of the Company on the basis of one vote for each share held. The Articles of Association of the Company allow for an unlimited number of shares to be issued, subject to restrictions placed by AGM resolutions. There are no restrictions on the shares in issue.

15. NET ASSET VALUE PER SHARE

The net asset value per ordinary share is based on net assets of £1,120,640,000 (2015: £1,127,187,000) and 1,299,412,465 (2015: 1,299,412,465) ordinary shares, being the number of ordinary shares in issue at the year end.

16. RELATED PARTY TRANSACTIONS

No Director has an interest in any transactions which are or were unusual in their nature or significant to the nature of the Group.

Standard Life Investments (Corporate Funds) Limited, as the Manager of the Group for the period received fees for their services as investment managers. Further details are provided in note 3. The total management fee charged to the Statement of Comprehensive Income during the year was £8,870,000 (2015: £8,832,000) of which £2,256,000 (2015: £2,266,000) remained payable at the year end. The Investment Manager also received an administration fee of £100,000 (2015: £136,000), of which £25,000 (2015: £25,000) remained payable at the year end.

The Directors of the Company are deemed as key management personnel and received fees for their services. Further details are provided in the Directors' Remuneration Report (unaudited) on page 45–46. Total fees for the year were £211,000 (2015: £221,000) none of which remained payable at the year end (2015: nil).

The Group invests in the Standard Life Investments Liquidity Fund which is managed by Standard Life Investments Limited. As at 31 December 2016 the Group had invested £60.1 million in the Standard Life Investments Liquidity Fund (2015: £55.4 million). No additional fees are payable to Standard Life as a result of this investment.

17. FINANCIAL INSTRUMENTS AND INVESTMENT PROPERTIES

The Group's investment objective is to provide ordinary shareholders with an attractive level of income together with the potential for income and capital growth from investing in a diversified UK commercial property portfolio.

Consistent with that objective, the Group holds UK commercial property investments. The Group's financial instruments consist of cash, receivables and payables that arise directly from its operations and loan facilities and swap instruments.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, market risk and interest rate risk. The Board reviews and agrees policies for managing its risk exposure. These policies are summarised below and remained unchanged during the year.

Fair value hierarchy

The following table shows an analysis of the fair values of investment properties recognised in the balance sheet by level of the fair value hierarchy:

Explanation of the fair value hierarchy:

Level 1	Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
Level 2	Use of a model with inputs (other than quoted prices included in level 1) that are directly or indirectly observable market data.
Level 3	Use of a model with inputs that are not based on observable market data.

31 December 2016	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total fair value £'000
Investment properties	—	—	1,270,624	1,270,624

31 December 2015	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total fair value £'000
Investment properties	—	—	1,311,695	1,311,695

The lowest level of input is the underlying yield on each property which is an input not based on observable market data.

The following table shows an analysis of the fair value of bank loans recognised in the balance sheet by level of the fair value hierarchy:

31 December 2016	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total fair value £'000
Bank loans	—	263,943	—	263,943

31 December 2015	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total fair value £'000
Bank loans	—	245,009	—	245,009

The lowest level of input is the interest rate applicable to each borrowing as at the balance sheet date which is a directly observable input.

The following table shows an analysis of the fair values of financial instruments and trade receivables and payables recognised in the balance sheet by level of the fair value hierarchy:

31 December 2016	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total fair value £'000
Interest rate swap	—	(3,754)	—	(3,754)
Trade and other receivables	—	16,035	—	16,035
Trade and other payables	—	(25,141)	—	(25,141)

31 December 2015	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total fair value £'000
Interest rate swap	—	159	—	159
Trade and other receivables	—	11,379	—	11,379
Trade and other payables	—	(23,828)	—	(23,828)

The lowest level of input is the three month LIBOR yield curve which is a directly observable input.

The carrying amount of trade and other receivables and payables is equal to their fair value, due to the short term maturities of these instruments. Expected maturities are estimated to be the same as contractual maturities.

The fair value of investment properties is calculated using unobservable inputs as described in note 9.

The fair value of the derivative interest rate swap contract is estimated by discounting expected future cash flows using current market interest rates and yield curves over the remaining term of the instrument.

The fair value of the bank loans are estimated by discounting expected future cash flows using the current interest rates applicable to each loan.

There has been no transfers between levels in the year for items held at fair value.

Real Estate Risk

The Group has identified the following risks associated with the real estate portfolio:

- The cost of any development schemes may increase if there are delays in the planning process. The Group uses advisers who are experts in the specific planning requirements in the scheme's location in order to reduce the risks that may arise in the planning process;
- A major tenant may become insolvent causing a significant loss of rental income and a reduction in the value of the associated property (see also credit risk overleaf). To reduce this risk, the Group reviews the financial status of all prospective tenants and decides on the appropriate level of security required via rental deposits or guarantees;
- The exposure of the fair values of the portfolio to market and occupier fundamentals such as tenants financial position.

Credit risk

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

At the reporting date, the maturity of the Group's financial assets was:

Financial Assets 2016	3 months or less £'000	More than 3 months but less than one year £'000	More than one year £'000	Total £'000
Cash	104,893	—	—	104,893
Rent receivable	2,603	—	—	2,603
Other debtors	3,301	—	—	3,301
	110,797	**—**	**—**	**110,797**

Financial Assets 2015	3 months or less £'000	More than 3 months but less than one year £'000	More than one year £'000	Total £'000
Cash	75,786	—	—	75,786
Rent receivable	1,163	—	—	1,163
Other debtors	2,356	—	—	2,356
	79,305	**—**	**—**	**79,305**

In the event of default by a tenant, the Group will suffer a rental shortfall and incur additional costs, including legal expenses, in maintaining, insuring and re-letting the property until it is re-let. The Board receives regular reports on concentrations of risk and any tenants in arrears. The Investment Manager monitors such reports in order to anticipate and minimise the impact of defaults by tenants.

The Company has a diversified tenant portfolio. The maximum credit risk from the rent receivables of the Group at 31 December 2016 is £5,641,000 (2015: £1,163,000). The Group holds rental deposits of £3,038,000 (2015: £2,323,000) as collateral against tenant arrears/defaults. All tenant deposits are in line with market practice. There is no residual credit risk associated with the financial assets of the Group. Other than those included in the provision for bad debts, no financial assets past due are impaired.

All of the cash is placed with financial institutions with a credit rating of A or above. £60.1 million (2015: £55.4 million) of the year end cash balance is held in the Standard Life Investments Liquidity Fund, which is a money market fund and has a triple A rating. Bankruptcy or insolvency of a financial institution may cause the Group's ability to access cash placed on deposit to be delayed or limited. Should the credit quality or the financial position of the banks currently employed significantly deteriorate, the Investment Manager would move the cash holdings to another financial institution subject to restrictions under the loan facility.

Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in realising assets or otherwise raising funds to meet financial commitments. While commercial properties are not immediately realisable, the Group has sufficient cash resources to meet liabilities.

The Group's liquidity risk is managed on an ongoing basis by the Investment Manager investing in a diversified portfolio of prime real estate and placing cash in liquid deposits and accounts. This is monitored on a quarterly basis by the Board. In certain circumstances, the terms of the Group's bank loan entitles the lender to require early repayment, and in such circumstances the Group's ability to maintain dividend levels and the net asset value attributable to the ordinary shares could be adversely affected.

As at 31 December 2016 the cash balance was £104,893,000 (2015: £75,786,000).

At the reporting date, the contractual maturity of the Group's liabilities, which are considered to be the same as expected maturities, was:

Financial Liabilities 2016	3 months or less £'000	More than 3 months but less than one year £'000	More than one year £'000	Total £'000
Bank loans	1,783	5,447	285,710	292,940
Other creditors	23,941	—	—	23,941
	25,724	5,447	285,710	316,881

Financial Liabilities 2015	3 months or less £'000	More than 3 months but less than one year £'000	More than one year £'000	Total £'000
Bank loans	1,803	5,423	292,390	299,616
Other creditors	22,324	—	—	22,324
	24,127	5,423	292,390	321,940

The amounts in the table are based on contractual undiscounted payments.

Interest rate risk

The cash balance as shown in the Balance Sheet, is its carrying amount and has a maturity of less than one year.

Interest is receivable on cash at a variable rate ranging from 0.2 per cent to 0.6 per cent at the year end and deposits are re-priced at intervals of less than one year.

An increase of 1 per cent in interest rates as at the reporting date would have increased the reported profit by £1,049,000 (2015: increased the reported profit by £758,000). A decrease of 1 per cent would have reduced the reported profit by £1,049,000 (2015: decreased the reported profit by £758,000). The effect on equity is nil (excluding the impact of a charge in retained earnings as a result of a change in net profit).

As the Group's bank loans have been hedged by interest rate swaps or are at fixed rates, these loans are not subject to interest rate risk.

As at 31 December 2016 the Group had in place a total of £150 million of interest rate swap instruments (2015: £150 million). The values of these instruments are marked to market and will change if interest rates change. It is estimated that an increase of 1 per cent in interest rates would result in the swap asset increasing by £4.8 million (2015: £6.0 million) which would increase the reported other comprehensive income by the same amount. A decrease of 1 per cent in interest rates would result in the swap asset decreasing by £4.9 million (2015: £6.3 million) which would decrease the reported other comprehensive income by the same amount. The other financial assets and liabilities of Group are non-interest bearing and are therefore not subject to interest rate risk.

Foreign Currency Risk

There was no foreign currency risk as at 31 December 2016 or 31 December 2015 as assets and liabilities of the Group are maintained in pounds Sterling.

Capital Management Policies

The Group considers that capital comprises issued ordinary shares, net of shares held in treasury, and long-term borrowings. The Group's capital is deployed in the acquisition and management of property assets meeting the Group's investment criteria with a view to earning returns for shareholders which are typically made by way of payment of regular dividends. The Group also has a policy on the buyback of shares which it sets out in the Directors' Authority to Buy Back Shares section of the Directors' Report.

The Group's capital is managed in accordance with investment policy which is to hold a diversified property portfolio of freehold and long leasehold UK commercial properties. The Group invests in income producing properties. The Group will principally invest in four commercial property sectors: office, retail, industrial and leisure. The Group is permitted to invest up to 15 per cent of its Total Assets in indirect property funds and other listed investment companies. The Group is permitted to invest cash, held by it for working capital purposes and awaiting investments, in cash deposits, gilts and money market funds.

The Group monitors capital primarily through regular financial reporting and also through a gearing policy. Gearing is defined as gross borrowings divided by total assets less current liabilities. The Group's gearing policy is set out in the Investment Policy section of the Report of the Directors. The Group is not subject to externally imposed regulatory capital requirements but does have banking covenants on which it monitors and reports on a quarterly basis. Included in these covenants are requirements to monitor loan to value ratios which is calculated as the amount of outstanding debt divided by the market value of the properties secured. The Group's Loan to value ratio is shown below.

The Group did not breach any of its loan covenants, nor did it default on any other of its obligations under its loan arrangements in the year to 31 December 2016.

	2016 £'000	2015 £'000
Carrying amount of interest-bearing loans and borrowings	248,532	248,004
External valuation of completed investment property (excluding lease incentive adjustment)	1,280,755	1,319,555
Loan to value ratio	19.4%	18.8%

The Group's capital balances are set out on page 58 and are regarded as the Group's equity and net debt.

18. CAPITAL COMMITMENTS

The Group had contracted capital commitments as at 31 December 2016 of £15.9 million (31 December 2015 — £13m), which included:

- £7.1m capital works required relating to an agreement for lease with Primark Stores Ltd at Shrewsbury.
- £1.1m capital works for the refurbishment of 81/85 George Street, Edinburgh.
- £6.1m capital works building pre-let additional units at St George's Retail Park, Leicester.
- £1.6m for capital works across 16/20 High Street & 1/3 Bedford Street, Exeter, Cineworld Complex Glasgow, Junction 27 Retail Park, Birstall, Leeds and Great Lodge Retail Park, Tunbridge Wells.

19. LEASE ANALYSIS

The Group leases out its investment properties under operating leases.

The future income under non-cancellable operating leases, based on the unexpired lease length at the year end was as follows (based on total rentals):

	2016 £'000	2015 £'000
Less than one year	66,458	68,413
Between one and five years	202,552	224,019
Over five years	273,746	341,092
Total	**542,756**	**633,524**

The largest single tenant at the year end accounted for 5.8 per cent (2015: 6.98 per cent) of the current annual rental income.

The unoccupied property expressed as a percentage of annualised total rental value was 3.7 per cent (2015: 2.8 per cent) at the year end.

The Group has entered into commercial property leases on its investment property portfolio. These properties, held under operating leases, are measured under the fair value model as the properties are held to earn rentals. The majority of these non-cancellable leases have remaining non-cancellable lease terms of between 5 and 15 years.

Analysis of the nature of investment properties and leases are provided in the 'UKCPT Portfolio in Numbers' pages.

20. SERVICE CHARGE

The Group's managing agents Jones Lang LaSalle manage service charge accounts for all the Group's properties. The Group pays the service charge on any vacant units. Service charges on rental properties are recharged to tenants. The total service charge incurred in the year to 31 December 2016 was £7.4 million (2015: £5.4 million). Of this figure, the service charge paid by the Group in respect of void units was £1.7 million (2015: £1.4 million) and is included in direct property expenses.

21. EVENTS AFTER THE BALANCE SHEET DATE

On 13 January 2017, the Group completed the sale of 13 Great Marlborough Street, W1 an office asset in London's Soho, for £30.5m, at an initial yield of 3.3%.

On 8 February 2017, the Group completed the forward purchase of a pre-let 258,370 sq ft distribution warehouse development in Burton upon Trent for a total consideration of circa £22.2 million, reflecting a yield on capital of 5.8%.

EPRA Performance Measures

UK Commercial Property Trust

NOTES TO THE ACCOUNTS

EPRA Performance Measure

One of EPRA's aims is to improve the transparency, comparability and relevance of the published results of listed real estate companies in Europe. EPRA performance measures calculated in line with 'Best Practice Recommendation Guidelines – November 2016' are therefore disclosed below:

	31 December 2016 Total £'000	31 December 2015 Total £'000
EPRA earnings	51,130	45,101
EPRA earnings per share (pence per share)	3.9	3.5
EPRA NAV	1,124,394	1,127,028
EPRA NAV per share	86.5	86.7
EPRA NNNAV	1,136,051	1,124,192
EPRA NNNAV per share	87.4	86.5
EPRA Net Initial Yield	4.8%	4.7%
EPRA topped-up Net Initial Yield	5.0%	4.9%
EPRA Vacancy Rate	3.7%	2.8%
EPRA Cost Ratios — including direct vacancy costs	23.3%	23.6%
EPRA Cost Ratios — excluding direct vacancy costs	18.5%	18.9%

A. EPRA EARNINGS	31 December 2016 £'000	31 December 2015 £'000
Earnings per IFRS income statement	45,186	87,635
Adjustments to calculate EPRA Earnings, exclude:		
Net changes in value of investment properties	15,040	(46,409)
Gain on disposal of investment properties	(9,096)	(3,528)
Close-out costs of interest rate SWAP	—	7,403
EPRA Earnings	51,130	45,101
Basic number of shares	1,299,412,465	1,299,412,465
EPRA Earnings per share (pence per share)	3.93	3.47

B. EPRA NET ASSET VALUE	31 December 2016 £'000	31 December 2015 £'000
IFRS NAV	1,120,640	1,127,187
Exclude		
Fair value of financial instruments	3,754	(159)
	1,124,394	1,127,028
EPRA NAV per share	86.5	86.7

C. EPRA TRIPLE NET ASSET VALUE (NNNAV)	31 December 2016 £'000	31 December 2015 £'000
EPRA NAV	1,124,394	1,127,028
Fair value of financial instruments	(3,754)	159
Fair value of debt	15,411	(2,995)
EPRA NNNAV	1,136,051	1,124,192
EPRA NNNAV per share	87.43	86.52
Fair value of debt per financial statements	263,943	245,009
Carrying value	248,532	248,004
Fair value of debt adjustment	15,411	(2,995)

D. EPRA NET INITIAL YIELD AND 'TOPPED UP' NIY DISCLOSURE	31 December 2016 £'000	31 December 2015 £'000
Investment property – wholly owned	1,280,755	1,319,555
Allowance for estimated purchasers' costs	87,101	75,186
Gross up completed property portfolio valuation	**1,367,856**	**1,394,741**
Annualised cash passing rental income	69,047	69,342
Property outgoings	(3,474)	(3,767)
Annualised net rents	65,573	65,575
Add: notional rent expiration of rent free periods or other lease incentives	3,169	2,078
Topped-up net annualised rent	68,742	67,653
EPRA NIY	4.8%	4.7%
EPRA "topped-up" NIY	5.0%	4.9%

E. EPRA COST RATIOS	31 December 2016 £'000	31 December 2015 £'000
Administrative / property operating expense line per IFRS income statement	15,948	16,416
EPRA Costs (including direct vacancy costs)	15,948	16,416
Direct vacancy costs	(3,267)	(3,290)
EPRA Costs (excluding direct vacancy costs)	12,681	13,126
Gross Rental income less ground rent costs	68,573	69,558
EPRA Cost Ratio (including direct vacancy costs)	23.3%	23.6%
EPRA Cost Ratio (excluding direct vacancy costs)	18.5%	18.9%

CINEWORLD
Glasgow

Additional Information

UK Commercial Property Trust

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the tenth Annual General Meeting of UK Commercial Property Trust Limited will be convened at the offices of Northern Trust International Fund Administration Services (Guernsey) Limited, Trafalgar Court, Les Banques, St Peter Port, Guernsey, Channel Islands GY1 3QL on 21 June 2017 at 10.00 a.m. for the following purposes.

Ordinary Resolutions

To consider and, if thought fit, pass the following resolutions as Ordinary Resolutions:

1. To approve and adopt the Report of the Directors, Auditor Report and the Financial Statements for the year ended 31 December 2016.

2. To receive and adopt the Directors' Remuneration Report for the year to 31 December 2016.

3. To re-appoint Deloitte LLP as Auditor to the Company until the conclusion of the next Annual General Meeting.

4. To authorise the Directors to determine the Auditor's remuneration.

5. To re-elect Mr Michael Ayre as a Director of the Company.

6. To re-elect Mr Ken McCullagh as a Director of the Company.

7. To re-elect Mrs Sandra Platts as a Director of the Company.

8. To re-elect Mr John Robertson as a Director of the Company.

9. To re-elect Mr Andrew Wilson as a Director of the Company.

Special Resolutions

To consider and, if thought fit, pass the following resolutions as Special Resolutions:

10. That the Directors of the Company be and they are hereby generally empowered, to allot ordinary shares in the Company or grant rights to subscribe for, or to convert securities into, ordinary shares in the Company ("equity securities"), for cash including by way of a sale of ordinary shares held by the Company as treasury shares, as if any pre-emption rights in relation to the issue of shares as set out in the listing rules made by the Financial Conduct Authority under Part VI of the Financial Services and Markets Act 2000 (as amended) did not apply to any such allotment of equity securities, provided that this power:

(a) expires at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or on the expiry of 15 months from the passing of this resolution, whichever is the earlier, save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement as if the power conferred hereby had not expired; and

(b) shall be limited to the allotment of equity securities up to an aggregate nominal value of £32,485,312 being approximately 10 per cent of the nominal value of the issued share capital of the Company (including treasury shares), as at 19 April 2017.

11. That the Company, be authorised in accordance with section 315 of The Companies (Guernsey) Law, 2008, as amended, (the 'Law') to make market acquisitions within the meaning of section 316(I) of the law of its own ordinary shares of 25p each ("shares") (either for retention as treasury shares for future resale of transfer or cancellation), provided that:

(a) the maximum number of Shares hereby authorised to be acquired shall be equal to 14.99 per cent of the Company's issued share capital on the date on which this resolution is passed;

(b) the minimum price (exclusive of expenses) which may be paid for a Share is 25p, being the nominal value per share;

(c) the maximum price (exclusive of expenses) which may be paid for a Share shall not be more than the higher of (i) an amount equal to 105 per cent of the average of the middle market quotations for a Share taken from the London Stock Exchange's Daily Official List for the five business days immediately preceding the day on which the Share is purchased and (ii) the higher of the last independent trade and the highest current independent bid on the London Stock Exchange;

(d) the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2017 or, if earlier, on the expiry of 15 months from the passing of this resolution, unless such authority is renewed prior to such time; and

(e) the Company may make a contract to purchase Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of Shares pursuant to any such contract.

By order of the Board
Northern Trust International Fund Administration Services (Guernsey) Limited
Secretary
Trafalgar Court
Les Banques
St Peter Port
Guernsey
Channel Islands
GY1 3QL
19 April 2017

Notes

1. A member who is entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend, speak and vote instead of him or her. A proxy need not be a member of the Company.

2. More than one proxy may be appointed provided each proxy is appointed to exercise the rights attached to different shares held by him or her.

3. A form of proxy is enclosed for use at the Meeting. The form of proxy should be completed and sent, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, so as to reach Computershare Investor Services (Jersey) Limited, The Pavilions, Bridgwater Road, Bristol BS99 6ZY, not later than 10.00 a.m. on 19 June 2017.

4. Completing and returning a form of proxy will not prevent a member from attending in person at the Meeting. If you have appointed a proxy and attend the meeting in person your proxy appointment will remain valid and you may not vote at the meeting unless you have provided a hard copy notice to revoke the proxy to Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY no less than 48 hours (excluding any part of a day that is not a working day) prior to the commencement of the meeting as set out above.

5. To have the right to attend and vote at the Meeting (and also for the purposes of calculating how many votes a member may cast on a poll) a member must first have his or her name entered on the register of members at the close of business on the day which is two days before the date of the meeting. Changes to entries in the register after that time shall be disregarded in determining the rights of any member to attend and vote at such Meeting.

6. The Directors' letters of appointment will be available for inspection for fifteen minutes prior to the Annual General Meeting and during the meeting itself.

7. As at 19 April 2017, the latest practicable date prior to publication of this document, the Company had 1,299,412,465 ordinary shares in issue with a total of 1,299,412,465 voting rights.

8. Any person holding 3 per cent of the total voting rights in the Company who appoints a person other than the Chairman as his proxy will need to ensure that both he and such third party complies with their respective disclosure obligations under the Disclosure and Transparency Rules.

SHAREHOLDER INFORMATION

Dividends

It is the Directors' intention in line with the Company's investment objective to pay an attractive level of dividend income to shareholders on a quarterly basis. The Directors intend to set the level of dividend after taking into account the long term income return of the Property Portfolio, the diversity and covenant strength of the tenants and the length of the leases of the Properties.

Dividends on the ordinary shares are expected to be paid in equal instalments quarterly in respect of each financial year in May, August, November and February. All dividends will be paid as interim dividends.

Shareholders who wish to have dividends paid directly into a bank account rather than by cheque to their registered address can complete a mandate form for the purpose. Mandates may be obtained from Computershare Investor Services (Guernsey) Limited, c/o Queensway House, Hilgrove Street, St Helier, Jersey JE1 1ES on request. Where dividends are paid directly to shareholders' bank accounts, dividend vouchers are sent directly to shareholders' registered addresses.

Share Price

The Company's ordinary shares are listed on the London Stock Exchange. Prices are given daily in the Financial Times under "Investment Companies — Conventional Property ICs".

Change of Address

Communications with shareholders are mailed to the address held on the share register. In the event of a change of address or other amendment this should be notified to Computershare Investor Services (Guernsey) Limited, c/o Queensway House, Hilgrove Street, St Helier, Jersey JE1 1ES under the signature of the registered holder.

Shareholder Enquiries

Contact Northern Trust International Fund Administration Services (Guernsey) Limited, Trafalgar Court, Les Banques, St Peter Port, Guernsey, Channel Islands GY1 3QL. Additional information regarding the Company may also be found at its website address which is:

www.ukcpt.co.uk

Alternative Performance Measures

The following Alternative Performance Measures ('APMs') are used by the Company. As definitions vary between entities, calculation methodologies are detailed below:

Share Price Total Return – The return to shareholders calculated on a per share basis by adding dividends paid in the period to the increase or decrease in Share Price. Dividends are assumed to have been reinvested in the quarter they are paid, excluding transaction costs.

NAV Total Return – The return to shareholders calculated on a per share basis by adding dividends paid in the period to the increase or decrease in NAV. Dividends are assumed to have been reinvested in the quarter they are paid, excluding transaction costs.

Portfolio Total Return – Combining the Portfolio Capital Return (the change in property value after taking account of property sales, purchases and capital expenditure in the period) and Portfolio Income Return (net property income after deducting direct property expenditure), assuming portfolio income is re-invested.

Net Gearing – Calculated as net borrowings (gross borrowings less cash, excl swap valuation) divided by total assets less current liabilities (excl cash, borrowing and swaps). SWAP valuations at fair value are not considered relevant in gearing calculations.

FINANCIAL CALENDAR 2017/18

Apr May Jun Jul Aug Sept Oct Nov Dec Jan Feb Mar

20 April 2017
Announcement of annual results

31 May 2017
Payment of 2017 first interim dividend

21 June 2017
Annual General Meeting

31 August 2017
Payment of 2017 second interim dividend

August 2017
Posting of Interim Report

30 November 2017
Payment of 2017 third interim dividend

28 February 2018
Payment of 2017 fourth interim dividend

Alternative Investment Fund Managers ('AIFM') Directive

In accordance with the AIFM Directive, information in relation to the Company's leverage and the remuneration of the Company's AIFM, Standard Life Investments (Corporate Funds) Limited, is required to be made available to investors.

Leverage

The Company's maximum and average actual leverage levels at 31 December 2016 are shown below:

Leverage exposure	Gross Method	Commitment Method
Maximum Limit	250%	250%
Actual	137%	124%

For the purposes of the AIFM Directive, leverage is any method which increases the Company's exposure, including the borrowing of cash and the use of derivatives. It is expressed as a percentage of the Company's exposure to its net asset value and is calculated on both a gross and commitment method. Under the gross method, exposure represents the sum of the Company's positions without taking account of any hedging or netting arrangements. Under the commitment method, exposure is calculated after certain hedging and netting positions are offset against each other.

The leverage limits are set by the AIFM and approved by the Board. The AIFM is also required to comply with the gearing parameters set by the Board in relation to borrowings.

Remuneration

The Company's AIFM, Standard Life Investments (Corporate Funds) Limited (SLI (CF)), is subject to the Remuneration requirements of the AIFM Directive on a proportionate basis in respect of its activities as AIFM for a range of Alternative Investment Funds (AIFs). Total assets under management of SLI (CF) were £15.69 billion at 31 December 2016, of which £8.46 billion of assets were AIFs subject to the AIFM Directive. The NAV of the Company was £1.12 billion as at 31 December 2016.

SLI (CF) does not employ any direct staff. The board of the AIFM are employees of Standard Life Investments Limited (SLI) and are subject to the SLI and Standard Life Group policies as regulated by the Financial Conduct Authority (FCA). SLI is subject to the FCA's Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU) Remuneration Requirements under SYSC 19C on a proportionate basis. The board of SLICF has responsibility for the risk management arrangements as they relate to the AIFM fund range.

The investment processes are subject to the governance structure of SLI and the board of SLI(CF) monitors the effectiveness in meeting strict criteria at an AIF level. The board of SLI (CF) discharges its duties via regular reporting and review at board meetings and via allocation of executive responsibilities, in relation to SLI (CF), within the SLI management team.

As noted above, the AIFM does not employ any staff, however, the board of the AIFM has six individuals who are AIFM Remuneration Code Staff "AIFM Code Staff", i.e. individuals whose activities have a material impact on the risk profile of the AIFM, or the AIFs that it manages. During the year there were a further four individuals on the board who retired and also qualify as AIFM Code staff up to the dates of their retirement. The aggregate remuneration for these ten individuals, apportioned for the AIFM duties they have performed for the year 2016 is £232,000.

AIFM Code Staff are monitored in respect of their performance in line with the SLI Remuneration Policy which is designed to meet the regulatory requirements of BIPRU and the AIFM Directive. The Remuneration Committees of SLI and Standard Life plc review and approve remuneration for AIFM Code Staff. More information on the remuneration policies of Standard Life plc are disclosed on the following web page:

www.standardlife.com/dotcom/our-company/governance/remuneration-code-disclosure.page

CORPORATE INFORMATION

Directors (all non-executive)
Andrew Wilson
Chairman

Ken McCullagh
Chairman of Audit Committee
and Senior Independent Director

Michael Ayre
Chairman of the Property
Valuation Committee
appointed 24 February 2016

Sandra Platts
Chairman of the Management
Engagement Committee

John Robertson
Chairman of the Risk Committee

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Registered Number
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Administrator and Secretary
Northern Trust International Fund
Administration Services
(Guernsey) Limited
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GY1 3QL

Investment Manager and Alternative Investment Fund Manager
Standard Life Investments
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SW1Y 4LR

Corporate P.R. Advisor
FTI Consulting Limited
200 Aldersgate
Aldersgate Street
London
EC1A 4HD

Corporate Broker
JP Morgan Cazenove
25 Bank Street
Canary Wharf
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Depositary
Citibank International PLC
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