



2017



# ANNUAL REPORT & ACCOUNTS

Fund Manager:

**SFS**  
Capital

RC 956192



# UNION HOMES

REAL ESTATE INVESTMENT TRUST





# REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2017

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## **FUND MANAGER, PROFESSIONAL ADVISERS ETC**

<b>DIRECTORS OF THE FUND MANAGER</b>	<p>Dr Layi Fatonan - (Chairman)          Mr. Patrick Iloianya - (Managing Director/CEO)          Dr. Yemi Kale - (Non-Executive Director)          Mr. Yemi Gbenro - (Non-Executive Director)          Mr. Dimeji Sonowo - (Executive Director)</p>
<b>FUND MANAGER</b>	<p>SFS Capital Nigeria Limited,          Plot 287, Ajose Adeogun,          Victoria Island,          Lagos.</p>
<b>TRUSTEE TO THE FUND</b>	<p>United Capital Trustees Limited,          UBA House, (12th Floor),          57 Marina, Lagos.</p>
<b>CUSTODIAN</b>	<p>UBA Global Investor Services,          UBA House (14<sup>th</sup> Floor),          57, Marina, Lagos.</p>
<b>REGISTRAR</b>	<p>GTL Registrars Limited,          274, Murtala Muhammed Way,          Alogomeji, Yaba,          Lagos.</p>
<b>AUDITORS</b>	<p>Baker Tilly Nigeria,          Kresta Laurel Complex (4<sup>th</sup> Floor),          376, Ikorodu Road,          Maryland,          Lagos.</p>
<b>BANKERS</b>	<p>Keystone Bank Plc          United Bank for Africa Plc          Skye Bank Plc          Sterling Bank          Coronation Bank</p>

## STATEMENT OF FUND MANAGER'S RESPONSIBILITIES

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The responsibilities of the Manager to the Fund are as follows: -

1. To carry on and conduct the business of the Fund in a proper and efficient manner and in particular, to diligently carry out the purpose for which Units are issued.
2. To act with prudence in relation to all moneys and accounts kept for the purpose of the Fund.
3. To keep proper books of accounts and prepare financial statements for the Fund and therein make true and proper entries of all affairs.
4. To issue jointly with the Trustee, certificates evidencing the purchase of Units of the Fund.
5. To invest the portfolio pool in a manner consistent with the investment objective of the Fund and investment guidelines.
6. To pay out of the Fund all expenses incurred or to be met in connection with the management of the Fund.
7. To appoint, with the consent of the Trustee, the Auditor to the Fund.
8. To make periodic returns to the Securities and Exchange Commission as may be specified from time to time.
9. To periodically avail unit-holders with information relating to the performance of the Fund.
10. To convene Annual General Meeting of the Fund's unit-holders.



.....  
Ilodiana Patrick  
Director  
FRC/2013/ICAN/00000002177



.....  
Gbenro Yemi  
Director  
FRC/2014/CIB/00000002190

## **STATEMENT OF TRUSTEE'S RESPONSIBILITIES**

The Trustee's responsibilities to the Fund are as follows: -

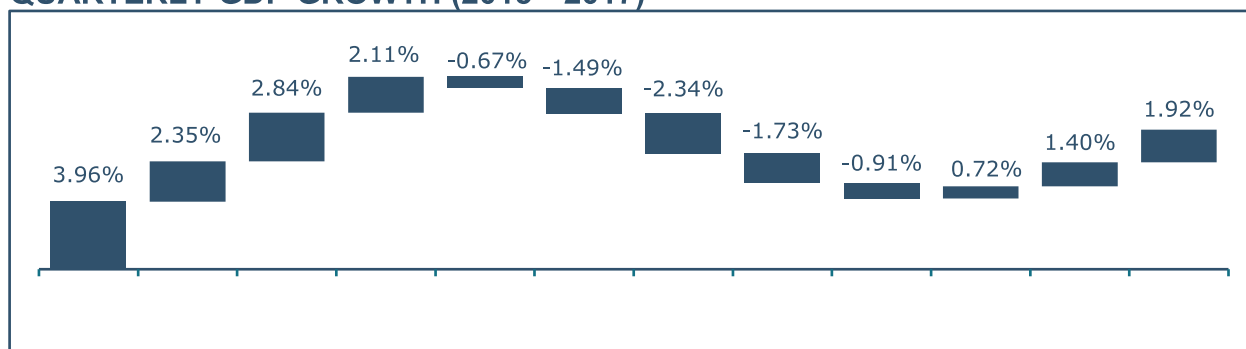
1. Represents the interest of investing public and therefore play an oversight role in the operations and investments of the REIT.
2. The Trustee is meant to monitor the activities of the Fund Manager on behalf of and in the interest of the Unit holders.
3. The Trustee is required to monitor the register of Unit holders.
4. The Trustee is required to ascertain the profitability rationale for investment decision-making of the Fund Manager.
5. The Trustee is required to approve all major investments from the REIT's funds.
6. The Trustee is required to ascertain that monthly and other periodic returns/reports relating to the REIT are forwarded by the Fund Manager to the Securities and Exchange Commission (SEC).
7. The Trustee is also required to report any breach of the existing Laws, Rules and Regulations or Terms of the Trust Deed to the Securities and Exchange Commission (SEC).

  
.....  
Tokunbo Ajayi  
FRC/NBA/00000008349

**REPORT OF FUND MANAGER FOR THE YEAR ENDED 31 DECEMBER, 2017**  
**ECONOMIC REVIEW**

The Nigerian economy growth trajectory took a positive turn in the second quarter of 2017, following five consecutive quarters of decline. In real terms, Gross Domestic Product (GDP) grew by 1.40% and 1.92% respectively in the third and fourth quarter of 2017. Sectoral analysis shows that Agriculture (largely Crop Production), Mining & Quarrying (largely Crude Petroleum and Natural Gas) sectors were responsible for the economic expansion. The weighted contributions of these sectors to GDP growth in the third quarter were 0.88% and 2.10% respectively. The Crude Petroleum and Natural Gas subsector particularly recorded a high growth of 25.89% in the third quarter, as oil prices and production volumes improved during the period.

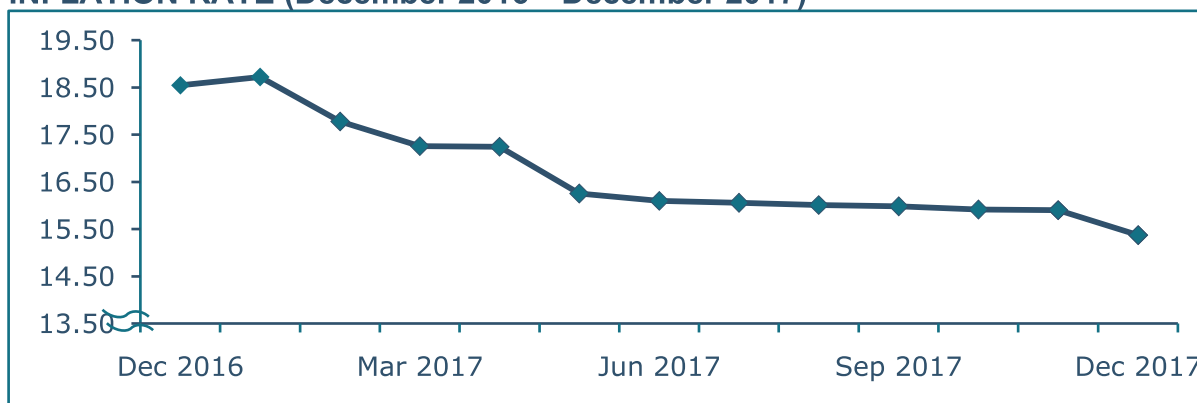
**QUARTERLY GDP GROWTH (2015 – 2017)**



Source: National Bureau of Statistics (NBS), SFS Capital Research

All through 2017, inflation was on a continuous decline. Riding on positive base effect, headline inflation dropped from a record high of 18.55% as at December 2016 to 15.37% as at December 2017. Major drivers of the trend are inflation is the decline in imported food and non-food prices, brought on by the moderating effects of stable exchange rates. In the first quarter of 2017, the government sold circa \$4bn forward contracts in the currency market, providing much-needed foreign currency to settle import debts and other transactions that contribute to headline inflation. Also, introduction of the Investor and Exporters' (I&E) window of the foreign exchange market in April 2017, also aided easing of pressure on the exchange rate and it provided much needed liquidity in the system.

**INFLATION RATE (December 2016 – December 2017)**



Source: National Bureau of Statistics (NBS), SFS Capital Research

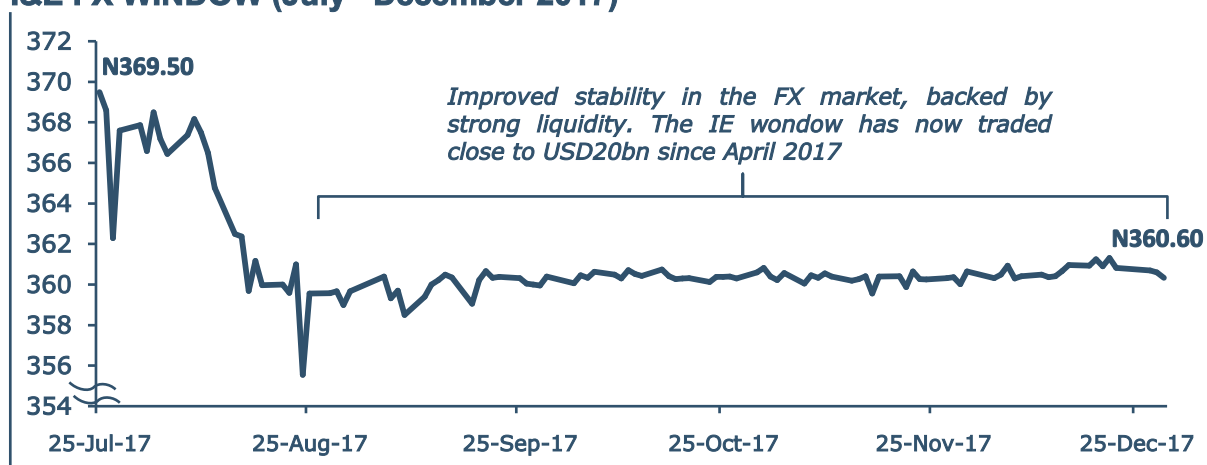


**REPORT OF FUND MANAGER FOR THE YEAR ENDED 31 DECEMBER, 2017**  
**ECONOMIC REVIEW (Cont'd)**

Unlike Russia and some other commodity dependent countries, Nigeria had tried to prevent its currency from depreciating when oil prices began to free fall in the fourth quarter of 2014; through a combination of trading controls, import restrictions (41-item Foreign Exchange (FX) ban list) and even a peg. The Central Bank of Nigeria (CBN) took a stance against a free float of the Naira. The Naira was held artificially at N197 to the US dollar at the official window for circa 15 months to June 2016, while the black market rate soared to high as N500 in the first quarter of 2017. The CBN believed that a free float would cause the Naira to become heavily devalued and therefore lead to a severe inflation spiral. As oil prices plummeted, so did the country's foreign currency earnings, meaning there was less cash to pay to defend the Naira.

Among the various initiatives implemented by the CBN to defend the Naira, the most notable and laudable is the Investor and Exporters' (I&E) FX window introduced in April 2017. According to the CBN, the purpose of this window is to boost liquidity in the FX market and ensure timely execution and settlement for eligible transactions. The supply of FX to this window comes from portfolio investors, exporters, authorized dealers (Deposit Money Banks) and 'other parties' with foreign currency to exchange to Naira. On the back of stronger FX reserves coupled with the success of the I&E window, the Naira to US dollar exchange rate as moderated to circa N360. There has been a convergence of rates in the parallel market and at the official window.

**I&E FX WINDOW (July - December 2017)**

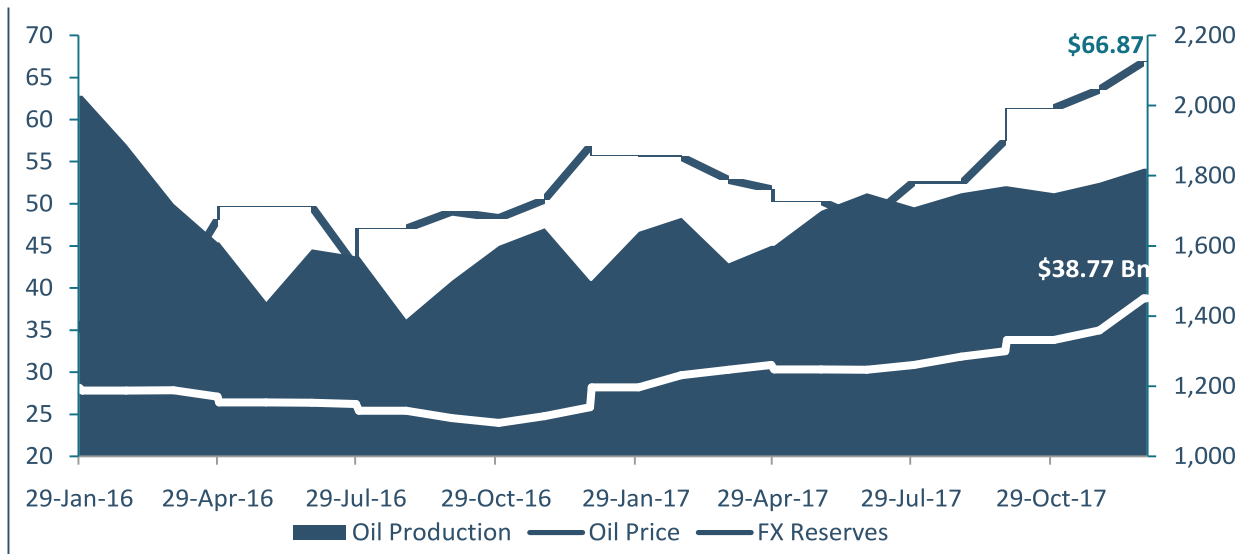


Source: Bloomberg, SFS Capital Research

Nigeria's FX reserves showed major improvement, growing by 50% in 2017 to close the year at \$38.77Bn, as oil price began to rise again and crude oil production improved.

**REPORT OF FUND MANAGER FOR THE YEAR ENDED 31 DECEMBER, 2017  
ECONOMIC REVIEW (Cont'd)**

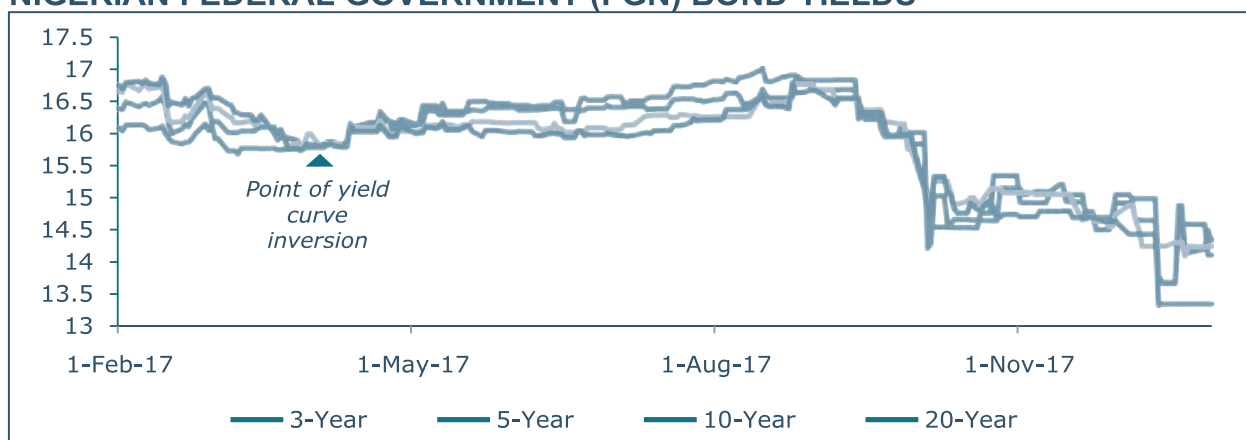
**NIGERIA CRUDE OIL PRODUCTION, BRENT PRICE & NIGERIA'S FX RESERVES (2016– 2017)**



Source: Bloomberg, Central Bank of Nigeria, OPEC, SFS Capital Research  
Oil Production – in thousands of barrels per day  
Oil Price – Brent Crude US\$ per barrel  
FX Reserves – US\$ Billion (Bn)

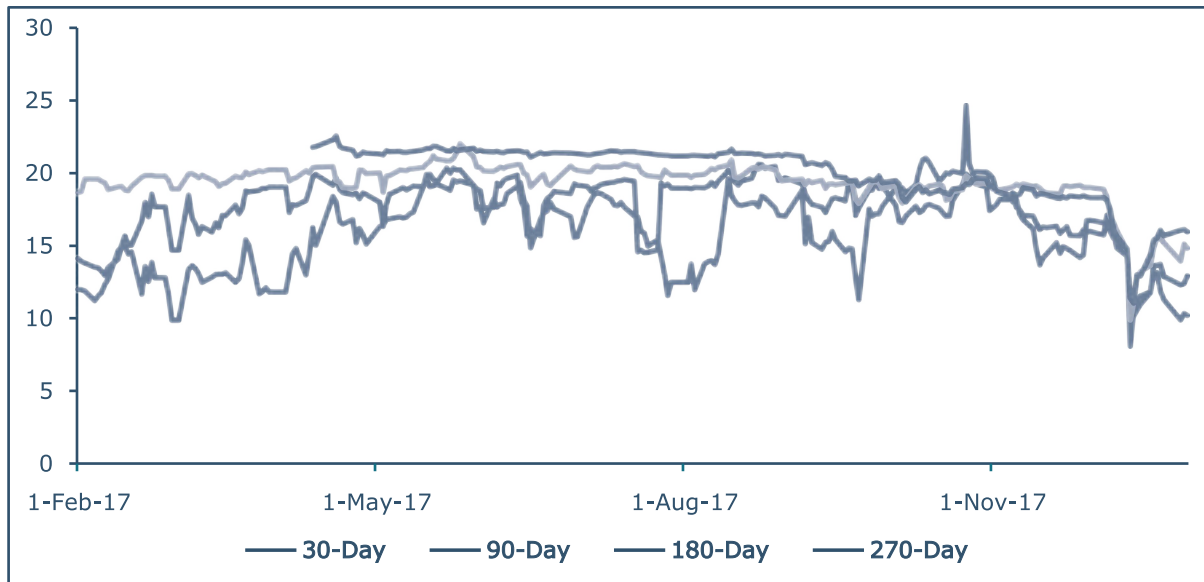
17. This is not surprising as the standard tool for monetary policy intervention in the face of rising inflation, was left unusable in the face of supply-side factors beyond the control of policy makers. Nigeria's monetary policy has been superseded by exchange rate policy. Yields remained high, with narrow spreads for a greater part of 2017. In the face of high inflation in 2016 feeding into 2017 and consistent threat to the value of the Naira against US\$, the CBN continuously mopped up liquidity from the system via aggressive Open Market operation (“OMO”) auctions. This action put upward pressure on yields on the short end of the market, which kept the yield curve inverted for a greater part of the year. Prior to the dip in Bond yields in September 2017, average yield for 3-years, 5-years, 10-years and 20-years bonds were 16.31%, 16.29%, 16.21% and 16.18% respectively.

**NIGERIAN FEDERAL GOVERNMENT (FGN) BOND YIELDS**



Source: Bloomberg, FMDQ, SFS CapitalResearch

**REPORT OF FUND MANAGER FOR THE YEAR ENDED 31 DECEMBER, 2017**  
**ECONOMIC REVIEW (Cont'd)**



Source: Bloomberg, FMDQ, SFS CapitalResearch

In the fourth quarter of 2017, yields began to drop drastically for both Nigeria Treasury Bills (T-Bills) and FGN Bonds. This drop reflects the CBN's and DMO's stance on reducing the crowding out effect within the domestic debt market, and also reduced tightening by the CBN. The DMO had stated its plan to refinance \$3 billion of T-Bills with Eurobonds rather than rolling them over at primary market auctions, to reduce borrowing cost and free-up funds for local businesses.

The 2018 budget stipulates a 50:50 split between domestic and foreign debt, restructuring from 54:46 split in 2017. Yields on T-Bills across all tenors dropped in December by an average of 700 basis points from peaks recorded at the start of the fourth quarter of the year. At the end of year, yields on 30-Day, 90-Day, 180-Day and 270-Day T-Bills closed at 10.23%, 12.93%, 14.82% and 15.96% respectively. Yields on FGN Bonds dropped by an average of 260 basis points across all tenors, from their peaks in the third quarter of the year. At the end of the year, yields on 3-Year, 5-Year, 10-Year and 20-Year FGN Bonds closed at 14.34%, 14.11%, 14.24% and 13.35% respectively.

The CBN is hinting towards a drop in the MPR in the first half of 2018, to commemorate the success of declining inflation. This expected drop in MPR may trigger a repricing of the shorter end of the market, which will hopefully lead to a normalization of the yield curve. Also a move towards the externalisation of Nigeria's debt will also play out across the yield curve, as FGN Bonds supply drops. Political risk is also an important factor to look out for in 2018, in the run up to the elections in 2019. As the perceived risk rises, it is expected that Foreign Portfolio Investors will exit the long end of the market and either become concentrated in the short end of the market or exit completely.

**REPORT OF FUND MANAGER FOR THE YEAR ENDED 31 DECEMBER, 2017  
ECONOMIC REVIEW (Cont'd)**

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**REAL ESTATE SECTOR REVIEW**

According to the Nigeria Bureau of Statistics, the Real Estate Services sector declined on an annual basis by 4.27% in 2017, which is an improvement compared to the decline of 6.86% recorded in 2016. On the other hand, the Real Estate Services sectoral contribution to the nation's GDP declined from 7.22% in 2016 to 6.85% in 2017.

The commercial real estate segment was a tenant's market in 2017 on account of the following factors; supply glut of purpose built office spaces, the growth of co-working spaces as a cheaper and more flexible option, conversion of residential properties for office use and others. These led landlords to get more creative with incentives to tenants. According to Broll Research, some of the notable incentives given by landlord include; lower rent, payment of rent in arrears, longer rent free periods, additional fit-out allowance etc. The above bearish factors led to decline in rent for Grade-A office spaces which fell to a range of \$500 - \$800 per square meter (psm) from an average of \$1,000 obtainable in prior years.

In terms of location, the traditional commercial areas which include Marina, Victoria Island, Ikoyi and Ikeja are being challenged by Lekki Phase 1, with the emergence of more purpose built Class B office spaces. Lekki Phase 1, which was initially planned as a residential community, is fast getting commercialised. According to research by Estate Intel Limited, the supply of commercial space in the Lekki Phase 1 region has grown annually by an average of 38% since 2011.

The floor area in Lekki Phase 1 tend to be relatively smaller than what is obtainable in Victoria Island, however the smaller leasable areas allow for an easier absorption of the space by tenants. The rental rate range from as low as \$140 psm to as high as \$500 psm depending on the finishing and location.

In the residential real estate market, vacancy rates have been on the decline. Data from Broll Research shows that vacancy rates in Lagos and Abuja averaged 11% and 9.5% in 2017 down from 32.87% and 27.57% recorded in 2016 respectively. As the economic recovery picked up steam in 2017, Lagos experienced increased demand from middle income earners for rental properties in Lekki Phase 1 and Oniru axis in particular.

**OUTLOOK**

The increased dollar liquidity in the economy, supported by the new I&E window, bodes well for investors in the real estate market. Transactions which had been stalled due to problems such as difficulty with repatriation of investment capital & dividends and the repayment of dollar based loans, are now able to be conducted with relative ease given the improved access to forex through this new window.

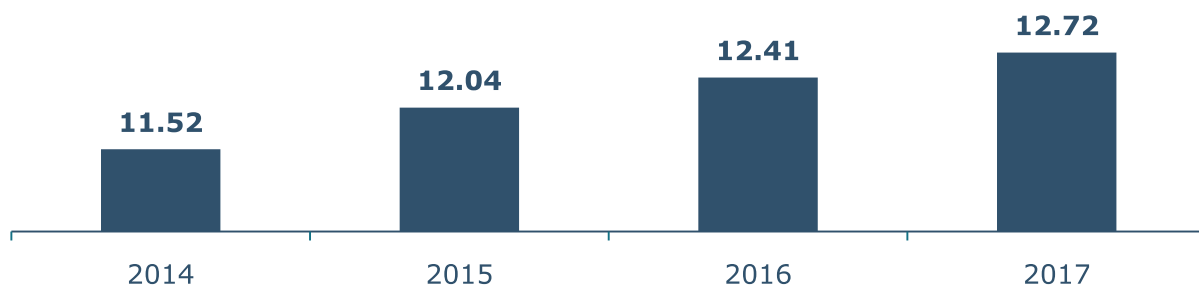
Furthermore, as the ease of doing business improves, we expect new and existing businesses to demand for both commercial and residential properties. While the immediate forecast might be lull, the medium term looks quite attractive notwithstanding the impact of elections in early 2019

**REPORT OF FUND MANAGER FOR THE YEAR ENDED 31 DECEMBER, 2017**  
**ECONOMIC REVIEW (Cont'd)**

**PERFORMANCE OF THE FUND IN 2017**

The Fund earned gross income of N531m in 2017, 14% lower relative to 2016. The Fund earned rental income of N204m, which came in 44% lower relative to 2016. The decline in rental income is as a result of the non-renewal of 2 core tenants due to adverse effect of the economic hardship. This decline was largely responsible for the lower gross income earned by the Fund in 2017. On the positive side, the Fund's earnings from fixed income investments increased by 27% to N303m in 2017. This comes on the back of the high interest rates that characterized the fixed income market in 2017.

**NAV (in Billions of ₦)**



The NAV of the fund closed the year at N12.72bn, 2% higher than 2016. The growth in NAV is a reflection of the Fund Manager's successful effort to turnaround the Fund's negative retained earnings. The retained earnings have improved from a loss of N982m in 2014 to a positive of N207m in 2017.



## REPORT OF THE TRUSTEE FOR THE YEAR ENDED 31 DECEMBER, 2017

The Trustee hereby present their Report on the affairs of the Union Homes Real Estate Investment Trust (“the Fund”) together with the Auditor’s Report and Financial Statements for the year ended 31<sup>st</sup> December, 2017.

### Principal Activities & Business Review:

The Fund opened for subscription on 19th August, 2008 and commenced investment activities on 03<sup>rd</sup> February, 2009. It was registered as a Closed-ended Investment Scheme and Real Estate Investment Trust (REIT) in Nigeria by the Securities and Exchange Commission under the Investment and Securities Act 2007. The Fund is governed by a Trust Deed with United Capital Trustees Limited as the Trustee. The Fund is established to provide Investors with long term capital appreciation and to optimize investors' returns by investing in a strategic mix of Real Estate properties and money market instruments as specified in Clause 3.1 of the Trust Deed and as spelt out in the Prospectus.

The Fund is listed on the Floor of the Nigerian Stock Exchange and in line with international best practice, its assets are totally segregated from the assets of the Manager.

### Performance of the Union Homes Real Estate Investment Trust:

The performance of the Fund as a function of its Net Asset Value is as follows:

	2017 N'000	2016 N'000
<b>Net Asset Value</b>	<b>12,708,080</b>	<b>12,413,374</b>

Real Estate related investments increased significantly from ₦11,157,027 as at 31<sup>st</sup> December, 2016 to ₦11,608,813 as at 31<sup>st</sup> December, 2017. This invariably led to increase in the Net Asset Value in 2017.

### Operating Results:

	2017 N'000	2016 N'000
<b>Net loss/income (After Tax)</b>	<b>294,706</b>	<b>371,058</b>

## ADMINISTRATION OF THE SCHEME

### Income Generation:

During the period under review, the Net Income generated by the REIT reduced from ₦371,058 in year 2016 to ₦294,706 in 2017 financial year. This was as a result of a drop in the occupancies of the REIT properties. It is envisaged that notable increases will be recorded in all areas of business operations with a view to improving its performance in the years ahead.

### Compliance:

#### Asset Allocation Requirement:

Compliance with the Asset Allocation requirement of the Fund (90% in Real Estate related investment and 10% in Liquid Asset investments) as at 31<sup>st</sup> December, 2017 was 89.87% in Real Estate Investments, while 10.13% was invested in the Liquid Asset. The REIT improved in the portfolio mix for the year 2017 when compared with the previous year.

However, it is worthy of note that the slight increase of 0.13% in Liquid Asset related investment viz-a-viz the 10% stipulated in the Trust Deed does not appear to impact on the management of the Fund. We believe that the Fund Manager will rebalance its portfolio to re-align with the Asset Allocation requirement going-forward.

### Auditor:

Messrs. Baker Tilly Nigeria, Chartered Accountants, have indicated their willingness to continue in office and shall do so in accordance with Section 169(1) of the Investment and Securities Act, 2007.

### Parties to the Fund:

<b>Fund Manager -</b>	SFS Capital Nigeria Limited
<b>Trustee -</b>	United Capital Trustees Limited
<b>Registrar -</b>	GTL Registrars Limited
<b>Auditors -</b>	Baker Tilly Nigeria
<b>Custodian -</b>	UBA Global Investor Services

### BY ORDER OF THE TRUSTEE:

United Capital Trustees Limited  
 UBA House (12th Floor)  
 57, Marina  
 Lagos


11<sup>th</sup> April, 2018

  
 Tokunbo Ayayi  
 FRC/2014/NBA/00000008349


## CERTIFICATION OF THE ACCOUNTS BY THE DIRECTORS OF THE FUND MANAGER

We hereby certify the accounts and state that neither the Manager nor any other person acting on its behalf has: -

- Transferred units to another person for sale, resale or subsequent transfer to the manager for sale or resale:
- Acquired or disposed of investments for account of the Fund otherwise than through a process duly approved by the investment committee;
- Acquired units for a price higher than the prevailing bid price; or
- Disposed of units for a price lower than the prevailing offer price.



Ilodiana Patrick .....  
Director  
FRC/2013/ICAN/00000002177



Gbenro Yemi .....  
Director  
FRC/2014/CIB/00000002190

## **REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF UNION HOMES REAL ESTATES INVESTMENT TRUST (REIT)**

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### **Report on the Audit of the Financial Statements**

We have audited the financial statements of the Fund which comprise the statement of financial position as at 31 December 2017, the statement of comprehensive income, statement of changes in equity, statement of cash flows for the year then ended and notes to the financial statements including a summary of significant accounting policies.

### **Opinion**

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Union Homes Real Estates Investment Trust (REIT) as at 31 December 2017, its financial performance and its cash flows for the year then ended in accordance with the provisions of both the Companies and Allied Matters Act CAP C20 2004 and the Financial Reporting Council of Nigeria (FRCN) Act No.6 of 2011.

### **Basis of Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company within the meaning of Nigerian Standards on Auditing (NSAs) issued by the Institute of Chartered Accountants of Nigeria and have fulfilled our other responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Going Concern**

The Fund's financial statements have been prepared using the going concern basis of accounting. The use of this basis of accounting is appropriate unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. Management has not identified a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern, and accordingly none is disclosed in the financial statements. Based on our audit of the financial statements, we also have not identified such a material uncertainty.

### **Responsibilities of the Fund Manager's for the Financial Statements**

The Fund Manager is responsible for the preparation and fair presentation of these financial statements which are in compliance with the requirements of both the Financial Reporting Council of Nigeria Act, No. 6 of 2011 and the Companies and Allied Matters Act, Cap C20 LFN, 2004. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatements, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

## REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF UNION HOMES REAL ESTATES INVESTMENT TRUST (REIT) (Cont'd)

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### Auditor's responsibilities for the audit of the financial statements

Our responsibility is to express an independent opinion on these financial statements based on our audit. We conducted our audit in accordance with Nigerian Standards on Auditing (NSAs) issued by the Institute of Chartered Accountants of Nigeria. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Report on Other Legal and Regulatory Requirements

The Companies and Allied Matters Act, CAP C20 LFN, 2004 requires that in carrying out our audit we consider and report to you on the following matters. We confirm that: -

- i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
- ii) proper books of account have been kept by the Fund; and
- iii) the Fund's statements of financial position and Comprehensive income are in agreement with the books of account.



.....  
Mark E. Ariemuduigho  
FRC/2013/ICAN/00000002724  
on behalf of  
Baker Tilly Nigeria  
(Chartered Accountants)



Lagos, Nigeria  
11 April, 2018



**STATEMENT OF COMPREHENSIVE INCOME (TOTAL RETURN)  
FOR THE YEAR ENDED 31 DECEMBER, 2017**

	Note	2017 ₱'000	2016 ₱'000
Investment income	3	530,622	617,752
<b><i>Deduct:</i></b>			
Operating expenses	4	(205,624)	(222,754)
Net income before taxation		324,998	394,998
Taxation	5	(30,292)	(23,940)
Net income after taxation	16	294,706	371,058
Net increase in unit holder's fund from investment activities		294,706	371,058
Earnings per share basic (N)		1.18	1.48

The notes on pages 21 to 42 form an integral part of these financial statements

## STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER, 2017

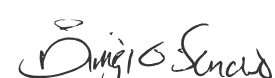
<b>Assets:</b>	<b>Note</b>	<b>2017</b>	<b>2016</b>
<b>Current Assets</b>		<b>N'000</b>	<b>N'000</b>
Cash and cash equivalents	6	417,392	269,809
Financial assets held to maturity	7	914,676	1,159,020
Other assets	8	6,893	8,103
Trade and other receivables	9	318,286	344,568
Property & equipment	10	41,233	50,554
<b>Total current assets</b>		<b>1,698,480</b>	<b>1,832,054</b>
<b>Non-Current Assets</b>			
Investment properties	11	11,608,813	11,157,027
<b>Total assets</b>		<b>13,307,294</b>	<b>12,989,081</b>
<b>Liabilities:</b>			
<b>Current Liabilities</b>			
Rent received in advance	12	90,678	90,252
Accruals and other payables	13	468,022	459,357
Provisions	14	20,013	24,710
Total current liabilities		578,713	574,319
<b>Non-Current Liabilities</b>			
Rent received in advance	12	20,500	1,388
<b>Total liabilities</b>		<b>(599,213)</b>	<b>(575,707)</b>
<b>Net assets</b>		<b>12,708,080</b>	<b>12,413,374</b>
Equity and Reserves			
Unit holders Equity	15	12,500,989	<b>12,500,989</b>
Retained earnings	16	207,091	(87,615)
<b>Unit holders' Fund</b>		<b>12,708,080</b>	<b>12,413,374</b>



Patrick Ilodiana  
Managing Director  
FRC/2013/ICAN/00000002177



Yemi Gbenro  
Director  
FRC/2014/CIB/00000002190



Dimeji Sonowo  
Executive Director  
FRC/2013/ICAN/00000002089

The notes on pages 21 to 42 form an integral part of these financial statements

**STATEMENT OF CHANGES IN EQUITY (MOVEMENTS IN UNITHOLDERS' FUND)  
FOR THE YEARENDED 31 DECEMBER, 2017**

	<b>Unit Equity N'000</b>	<b>General reserve N'000</b>	<b>Total N'000</b>
1 January, 2016	12,500,989	(458,673)	12,042,316
Transfer from income statement	-	371,058	371,058
<b>31 December, 2016</b>	<b>12,500,989</b>	<b>(87,615)</b>	<b>12,413,374</b>
1 January, 2017	12,500,989	(87,615)	12,413,374
Transfer from income statement	-	294,706	294,706
<b>31 December, 2017</b>	<b>12,500,989</b>	<b>207,091</b>	<b>12,708,080</b>

The notes on pages 21 to 42 form an integral part of these financial statements

## PORTFOLIO STATEMENT FOR THE YEAR ENDED 31 DECEMBER, 2017

	Market value N'000	2017 Percentage of portfolio %	Market N'000	2016 Percentage of net assets %
Real estate	11,308,813	87.55	11,157,027	88.65
Real estate related	300,000	2.32	-	-
<b>Money market investments</b>	11,608,813	89.87	11,157,027	88.65
Cash and cash equivalent	417,392		269,809	2.14
Financial assets held to maturity	914,676		1,159,020	9.21
	1,332,068			
Unclaimed dividend	(23,970)		-	-
	1,308,098	10.13	-	-
<b>Total value of portfolio</b>	<b>12,916,911</b>	<b>100</b>	<b>12,585,856</b>	<b>100</b>

The Fund is expected to invest 90% of the Fund's total assets in Real Estates and Real Estates related assets, while the remaining 10% should be invested in money market.

As at 31 December, 2017, the Fund's investment in Real Estates was about 90% of the Fund's total assets.

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 ₱'000	2016 ₱'000
Operating profit before working capital changes	17.i	339,234	398,148
Working capital changes	17.ii	50,998	(127,997)
Income tax paid		(30,292)	(23,940)
<b>Net cash flow from operating activities</b>		<b>359,940</b>	<b>246,211</b>
<b>Cash flow from investing activities:</b>			
Development of investment in properties		(454,077)	(479,154)
Purchases of PPE		(2,624)	(53,704)
Investment in Treasury bills		244,344	(1,159,020)
<b>Net cash flow from investing activities</b>		<b>(212,357)</b>	<b>(1,691,878)</b>
Net increase in cash and cash equivalent		147,583	(1,445,667)
Cash and equivalents brought forward		269,809	1,715,476
<b>Cash and cash equivalent at the end of the year</b>	6	<b>417,392</b>	<b>269,809</b>

The notes on pages 21 to 42 form an integral part of these financial statements



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2017

### 1.0 General information

#### Reporting entity

Union Homes Real Estate Investment Trust (REIT) was established on August 19, 2008 as a Unit Trust Scheme, registered and listed on the floor of the Nigerian Stock Exchange on 2 July, 2010. The Fund is managed by SFS Capital Nigeria Limited which is located at Plot 287, Ajose Adeogun Street, Victoria Island, Lagos.

The Union Homes REIT is an actively managed, close ended unit Trust scheme whose primary objective is to achieve long term capital appreciation of its assets by investing a maximum of 90% of the assets in Real Estate and Real Estate related investments. The Trust Deed provides for a maximum of 10% of the Fund's total assets to be invested in quality money market instruments to ensure liquidity.

The Fund is established to provide an opportunity for a large number of investors to share the ownership of a group of real estate assets through the medium of a Fund that buys, develops, manages and sells real estate assets.

### 2.0 Accounting policies

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

#### 2.1 Basis of preparation

##### *Statement of compliance*

The financial statements have been prepared in compliance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and with the interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) as adopted by the Federal Republic of Nigeria.

##### *Functional and presentation currency*

The financial statements are presented in Nigeria Naira (N) which is the Fund's functional and presentation currency.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2017 (Cont'd)

### Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and the future periods if the revision affects both current and future periods.

### Basis of measurement

The financial statements have been prepared on the historical cost basis except for certain financial instruments measured at fair value through profit or loss.

### 2.2 Standards issued but not yet effective

The standards listed below have been issued but not yet effective up to the Fund's financial year ended 31 December, 2017. The Fund intends to adopt these standards when they become effective. Management expects the adoption of these standards and amendments, in most cases, not to have any significant impact on the Fund's financial position or performance in the period of initial application but additional disclosures may be required. In cases where it will have an impact, management shall assess the possible impact.

Pronouncement	Issued	Effective date
<b>IAS 12 Income Taxes</b> <ul style="list-style-type: none"> <li>Amendments resulting from Annual Improvements 2015-2017 Cycle (income tax consequences of dividends)</li> </ul>	December 2017	Annual periods beginning on or after 1 January 2019
<b>IAS 19 Employee Benefits</b> <ul style="list-style-type: none"> <li>Amendments regarding plan amendments, curtailments or settlements</li> </ul>	February 2008	Annual periods beginning on or after 1 January 2019
<b>IAS 23 Borrowing Costs</b> <ul style="list-style-type: none"> <li>Amendments resulting from Annual Improvements 2015-2017 Cycle (borrowing costs eligible for capitalisation)</li> </ul>	December 2017	Annual periods beginning on or after 1 January 2019
<b>IAS 28 Investments in Associates and Joint Ventures</b> <ul style="list-style-type: none"> <li>Amendments resulting</li> </ul>	December 2016	Annual periods beginning

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER, 2017 (Cont'd)**

from <i>Annual Improvements 2014-2016 Cycle</i> (clarifying certain fair value measurements)		on or after 1 January 2018
<ul style="list-style-type: none"> <li>Amendments regarding long-term interests in associates and joint ventures</li> </ul>	October 2017	Annual periods beginning on or after January 2019
<b>IAS 40 <i>Investment Property</i></b> <ul style="list-style-type: none"> <li>Amendments to clarify transfers or property to or from investment property</li> </ul>	December 2016	Annual periods beginning on or after January 2018

**2.3 Summary of significant accounting policies**

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

**i. Cash and cash equivalents**

Cash and cash equivalents include cash in hand and at bank, call deposits and short term highly liquid financial assets (including money market funds) with original maturities of less than or of three months, which are subject to insignificant risk of changes in their fair value, and are used by the Fund in the management of its short-term commitments.

**ii. Investment properties**

Investment properties comprise of completed property and property under construction or re- development held to earn rental income or for capital appreciation or both. Investment property is measured initially at cost including transaction costs. Transaction costs include professional fees for legal services and other commissions to bring the property to the condition necessary for it to be capable of operating. The carrying amount also includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met. Subsequent to initial recognition, investment properties are stated at fair value. Gains or losses arising from changes in the fair values are included in the income statement in the year in which they arise. Fair values are determined individually, on a basis appropriate to the purpose for which the property is intended and with regard to recent market transactions for similar properties in the same location. In an active market, an independent valuer, holding a recognized and relevant professional qualification and with recent experience in the location and category of investment properties being valued, values the portfolio periodically in line with the Trust Deed. The valuer, in addition to the qualifications above, should hold Financial Reporting Council (FRC) of Nigeria registration certificate in accordance with section 41 of the Financial Reporting Council of Nigeria Act, No.6 of 2011.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2017 (Cont'd)

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Investment property is derecognised when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment property is recognised in the income statement in the year of retirement or disposal.

Gains or losses on the disposal of investment property is determined as the difference between net disposal proceeds and the carrying value of the asset in the previous full period financial statements.

i. Property, Plant and Equipment

The Fund does not hold any property, plant and equipment at present as it is against the position of the Securities and Exchange Commission (SEC). All properties, plant and equipment used for managing the Fund are owned by the Fund manager who is paid management fees. However, items of plant and machinery relating to investment property are accounted for separately and depreciated over its useful life span.

iv) Financial instruments

(a) Recognition and measurement

Financial assets and financial liabilities are recognised in the statement of financial position when the company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially recognised at their fair value plus, in the case of all financial assets not carried at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Purchases and sales of financial instruments are measured on a trade-date basis.

Financial liabilities and equity instruments, issued by the company, are classified according to the substance of the contractual arrangements entered into and the definition of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

Financial assets are derecognised when and only when:

- The contractual rights to the cash flows from the financial assets expire; or
- The company transfers the financial asset, including substantially all the risks and rewards of ownership of the asset.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2017 (Cont'd)

A financial liability is derecognised when and only when the liability is extinguished, that is, when the obligation specified in the contract is discharged, cancelled or has expired. The difference between the carrying amount of a financial liability (or part thereof) extinguished or transferred to another party and consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Investments made by the company which are classified as either held at fair value through profit or loss or available-for-sale, are measured at subsequent reporting dates at fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair values of quoted investments and unit trusts in active markets are based on current market prices. Since actual market prices are available in determining fair values, no significant estimates or valuation models are applied in determining the fair value of quoted financial instruments.

### (b) Fair value hierarchy

Fair values are determined according to the following hierarchy based on the requirements in IFRS 7 'Financial Instruments: Disclosures':

– Level 1: quoted market prices: financial assets and liabilities with quoted prices for identical instruments in active markets.

– Level 2: valuation techniques using observable inputs: quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial assets and liabilities valued using models where all significant inputs are observable.

– Level 3: valuation techniques using significant unobservable inputs: financial assets and liabilities valued using valuation techniques where one or more significant inputs are unobservable.

The best evidence of fair value is a quoted price in an active market. In the event that the market for a financial asset or liability is not active, a valuation technique is used.

### (c) De-recognition of financial instruments

Financial assets are derecognised when the contractual right to receive cash flows from the investments have expired or on trade date when they have been transferred and the Company has also transferred substantially all risks and rewards of ownership. Non-cash financial assets pledged, where the counterparty has the right to sell or re-pledge the assets to a third party, are classified as pledged assets.



**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER, 2017 (Cont'd)**

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Financial liabilities are derecognised when they are extinguished, that is when the obligation is discharged, cancelled or expires.

**(d) Financial assets**

Financial assets are classified into the following categories: financial assets at fair value through profit or loss; loans and receivables, held-to-maturity and available-for-sale financial assets. Management determines the classification of financial assets at initial recognition. This classification depends on the nature and purpose of the financial asset.

**(i) Financial assets at fair value through profit or loss**

This category has two components: those held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin, or a security is included in a portfolio in which a pattern of short-term profit taking exists or if so designated by management at inception as held at fair value through profit or loss.

Financial assets designated at fair value through profit or loss at inception are those that are:

- Held to match liabilities that are linked to changes in fair value of these assets. The designation of these assets at fair value through profit or loss eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising gains and losses on them on different bases; or

- Managed and whose performance is evaluated on a fair value basis. Information about these financial assets is provided internally on a fair value basis to the company's key management personnel.

The company's investment strategy is to invest in equity and debt securities, and to evaluate them with reference to their fair values. Assets that are part of these portfolios are designated upon initial recognition at fair value through profit or loss.

**(ii) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These arise when the company provides money, goods or services directly to a debtor with no intention of trading the receivable. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less impairment losses.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER, 2017 (Cont'd)**

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The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured on initial recognition, minus principal repayments, plus or minus

the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reductions for impairment of financial assets. The carrying amount represents its fair value.

(iii) **Available-for-sale**

Available-for-sale instruments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Subsequent to initial recognition, financial assets classified as available-for-sale are measured at fair value on the statement of financial position.

(iv) **Held-to-maturity**

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has both the positive intent and ability to hold to maturity. Were the company to sell more than an insignificant amount of held-to-maturity investments, the entire category would be tainted and reclassified as available-for-sale assets with the difference between amortised cost and fair value being accounted for in other comprehensive income (OCI). Held-to-maturity investments are carried at amortised cost, using the effective interest method, less any impairment losses.

(e) **Financial liabilities**

Financial liabilities are recognised initially at fair value, generally being their issue proceeds net of transaction costs incurred. Financial liabilities are subsequently stated at amortised cost and interest is recognised over the period of the borrowing using the effective interest method.

The company classifies certain liabilities at fair value through profit or loss, mainly to match the accounting classification of assets with similar risks. Such liabilities are accounted for at fair value with changes in fair value recognised in profit or loss.

(f) **Gains and losses**

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in profit or loss in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income, until the financial

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2017 (Cont'd)

asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss. Interest income, calculated using the effective interest method, is recognised in profit or loss except for short term receivables where the recognition of interest would be immaterial.

Dividends on available-for-sale equity instruments are recognised in the profit or loss when the company's right to receive payment is established.

### (g) **Effective interest method**

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate

that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

### (h) **Offsetting of financial instruments**

- Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or, realise the asset and settle the liability simultaneously.

### **Impairment of financial assets**

#### **Assets carried at amortised cost**

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

The company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2017 (Cont'd)

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If the company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it then includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in the collective assessment of impairment. If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in profit or loss.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

### **Assets carried at fair value**

At each reporting date, the company assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from comprehensive income and recognised in profit or loss.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2017 (Cont'd)

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Impairment losses recognised in profit or loss on equity instruments classified as available-for-sale are not subsequently reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income. However, if in a subsequent period the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

### v. Provisions

A provision is recognized only if, as a result of a past event, the Fund has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

Provisions are not recognized for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation.

### vi. Deferred income – rent received in advance

Deferred income represents income collected but not earned as at the company's year end. This is primarily composed of rent received in advance on leased properties. Deferred income is recorded for all income related to the trade of the business in the next financial year.

### vii. Borrowings – mortgage loan

Borrowings, inclusive of transaction costs, are recognised initially at fair value. Borrowings are subsequently stated at amortised cost using the effective interest rate method; any difference between proceeds and the redemption value is recognised in the statement of other comprehensive income over the period of the borrowing using the effective interest rate method.

Borrowings are classified as current and non-current liabilities depending on the repayment period of the borrowing.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2017 (Cont'd)

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### viii. **Related party transactions**

Related party transactions are disclosed separately as to the type of relationship that exists and the outstanding balances necessary to understand their effects on the financial position and the mode of settlement.

### ix. **Taxes**

The Fund is not subjected to income and education taxes on its income by the concession given to the Fund. This concession was given and approved by the Federal Ministry of Finance in accordance with international best practice. This concession covers:

- Exemption from Companies Income Tax, although WHT will be imposed on dividend distribution to investors; any distribution below the prescribed threshold (i.e. 90%) will disqualify the REIT from tax exemption.
- Exemption from stamp duties to reduce transaction costs; and
- Exemption from Capital Gains Tax on the ground that income arising from sales or disposal will be ploughed back for the purchase of additional properties or distribute as dividend.

### x. **Unit holders equities and reserves**

#### ***Unit issue costs***

Incremental costs directly attributable to the issue of new units are shown in equity as a deduction.

#### ***Distributions***

Distributions to the Fund's unit holders are recognised in equity in the period in which they are made or, if earlier, approved by the Fund's unit holders. Distributions for the year that are declared after the date of the statement of financial position are dealt with in the subsequent events note.

### xi. **Foreign currency translation**

#### ***Transactions and balances***

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2017 (Cont'd)

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losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

### xii. **Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefit will flow to the Fund and the revenue can be reliably measured. Revenue of the Fund comprises of:

#### ***Rental income:***

Rental income receivable from operating leases, less the Fund's initial direct costs of entering into the leases, is recognised on a straight-line basis over the term of the leased. Amounts received from tenants to terminate leases or to compensate for dilapidations are recognised in the income statement when they arise.

#### ***Services rendered/service charge and expenses recoverable from tenants:***

Revenue associated with the rendering of services is recognised with reference to the stage of completion of the transaction at the end of the accounting period. Income arising from expenses recharged to tenants is recognised in the period in which the expense can be contractually recovered.

#### ***Sale of completed property and Sale of property under development:***

Income is recognised when the significant risks and returns have been transferred to the buyer, which is normally on unconditional exchange of contracts. For conditional exchanges, sales will be recognised only when all the significant conditions are satisfied.

### xiii. **Borrowing costs**

Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that the Fund incurs in connection with the borrowing of funds.

### xiv. **Expenditure recognition**

Expenditures are recognised as they accrue during the course of the year. Analysis of expenses recognised in the income statement is presented as classification based on either their nature or their function within the Fund whichever provides information that is reliable and more relevant.



**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER, 2017 (Cont'd)**

	2017 N'000	2016 N'000
<b>3. Investment income</b>		
Rental income	203,883	364,567
Interest from deposits	302,919	239,406
Sundry income (3.1)	23,820	13,779
	<b>530,622</b>	<b>617,752</b>
<b>3.1 Sundry income</b>		
Incomereceived on caution deposit	-	4,738
Legal fee	4,378	3,063
Provision write back	19,442	-
Scrap sales	-	5,978
	<b>23,820</b>	<b>13,779</b>
<b>4. Operating expenses</b>		
Management fee	129,380	130,152
Provision for property maintenance	20,013	24,710
Custodian fees	12,938	13,015
Insurance fee	11,956	9,544
Depreciation plant & machinery	11,945	3,150
Legal charges	3,670	4,146
Trusteeship fee	2,500	2,500
Regulatory fee	3,260	3,260
Audit fee	3,000	3,000
Valuation fees	2,980	2,600
Property maintenance expenses	2,231	7,491
Independent Member sitting allowance	840	840
Advertisement and public relations	434	-
Registrars fee	261	291
Website expenses	160	-
Bank charges	56	57
Service charge	-	12,800
Provision for AGM expenses	-	2,500
Rating agency's fee	-	2,500
Subscription and donations	-	150
Travelling expenses	-	48
	<b>205,624</b>	<b>222,754</b>

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER, 2017 (Cont'd)**

	2017 N'000	2016 N'000
<b>5. Taxation</b>		
<b>Withholding tax paid</b>	<b>30,292</b>	<b>23,940</b>

This amount represents amount deducted from interest received from call deposits with banks which is deemed to be the final tax paid by the Fund.

**6. Cash and cash equivalents**

	2017 N'000	2016 N'000
Cash in hand	-	-
Cash at bank	6,825	109,809
Short-term deposits	410,567	160,000
	<b>417,392</b>	<b>269,809</b>

The details of short term deposits are:

	Principal Amount N'000	Principal Amount N'000
Skye Bank	178,555	-
Sterling Bank Plc	232,012	160,000
	<b>410,567</b>	<b>160,000</b>

Cash at bank earns interest at floating rates based on daily bank deposit rate. The short term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Fund, and earn interest at the respective short-term deposit rates.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER, 2017 (Cont'd)**

**7. Financial assets held to maturity Investment in treasury bills 2017**

	Discounted Value N'000	Face Value N'000	Tenor
Skye Bank	886,926	1,000,000	364 days
Coronation Merchant Bank	27,750	31,269	265 days
	<b>914,676</b>	<b>1,031,269</b>	
<b>2016</b>			
Skye bank	<b>1,159,020</b>	<b>1,393,307</b>	364 days

**8. Other assets-prepayments**

	2017 N'000	2016 N'000
Insurance-fire and special peril policy	<b>6,893</b>	<b>8,103</b>

Insurances prepaid and the respective amounts are on the following investment properties.

	2017 N'000	2016 N'000
11A Sapara Williams Street, Victoria Island, Lagos	-	1,688
9, Mike Akhigbe Way, Abuja	267	297
Plot 3, Block A4, Olusegun Aina Street, Ikoyi	491	546
28A, Rumens Street, Ikoyi	1,429	-
Victors Court 2, Palace Road, Parkview, Ikoyi	-	320
Continental Court, Sinari Daranijo Street, Victoria Island	-	1,642
Block 4-6 McDonald Road Ikoyi, Lagos	2,185	822
Legacy properties	-	1,828
Locke apartment	2,190	592
Amina Court, Abuja	331	368
	<b>6,893</b>	<b>8,103</b>
<b>9. Trade and other receivables</b>		
Rent receivable (note 9.1)	159,049	108,998
<b>Other receivables:</b>		
Interest receivable (note 9.2)	158,994	235,327
Union Homes Suspense Account (note 9.3)	243	243
	<b>318,286</b>	<b>344,568</b>

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER, 2017 (Cont'd)**

**9.1 Rent receivable**

Rent receivable on properties as at 31 December, 2017 comprises of rent due on the following properties:

	2017 N'000	2016 N'000
McDonald Court, Block 4-6 McDonald Road Ikoyi, Lagos	28,125	29,508
Legacy properties	115,389	69,575
9, Mike Akhigbe Way, Abuja	8,785	9,915
Plot 3, Blok A4, Olusegun Aina Street, Ikoyi	1,386	-
28A, Rumen Property	4,000	-
Locke apartments	1,364	-
	<b>159,049</b>	<b>108,998</b>

**9.2 Interest receivable**

Interest receivable are accrued interests on deposits with Sterling Bank, Coronation Bank Plc and Skye Bank Plc. The deposits have maturity periods of between one day and twelve months.

<b>9.3 Others</b>	<b>243</b>	<b>243</b>
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This balance represents amount reeivable from Union Homes Plc in respect of expenses incurred on their behalf as fund managers

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER, 2017 (Cont'd)**

**10. Property, plant and equipment**

	Plant and Machinery ₱'000	Household equipment ₱'000	Total ₱'000
<b>Cost</b>			
As at 1/1/2017	53,704	-	53,704
Additions	-	2,624	2,624
<b>As at 31/12/2017</b>	<b>53,704</b>	<b>2,624</b>	<b>56,328</b>
<b>Depreciation</b>			
As at 1/1/2017	3,150	-	3,150
Charged for the year	11,679	266	11,945
<b>As at 31/12/2017</b>	<b>14,829</b>	<b>266</b>	<b>15,095</b>
<b>Net book value</b>			
31 December, 2017	38,875	2,358	41,233
<b>31 December, 2016</b>	<b>50,554</b>	<b>-</b>	<b>50,554</b>

**11. Investment properties**

	2017 ₱'000	2016 ₱'000
Completed investment property		
At start of the period	11,157,027	10,677,873
Capital expenditure on property during the year	454,077	479,154
Write off/refund	(2,291)	-
<b>At end of the period</b>	<b>11,608,813</b>	<b>11,157,027</b>

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER, 2017 (Cont'd)**

This is detailed as follows:

**Movement in the year ended 31 December, 2017**

	1/1/2017 N'000	Net Additions/ disposals N'000	31/12/2017 N'000
Apartment at McDonald Court			
Block 4-6 McDonald Road, Ikoyi Lagos	1,120,625	18,518	1,139,143
11A, Sapara Williams Street, V.I.	1,618,533	97,181	1,715,714
Plot 3, Block A4, Olusegun Aina Street, Ikoyi	452,625	3,274	455,899
9 Mike Akhigbe Way, Abuja	330,000	-	330,000
1 Sinai Daranijo Street, Victoria Island	2,200,000	14,302	2,214,302
Victors Courts 2, Palace Road, Parkview, Ikoyi	300,000	8,202	308,202
28a, Rumens Street, Ikoyi	1,702,243	(2,291)	1,699,952
Amina Court	310,900	-	310,900
Locke Apartments	653,101	12,600	665,701
<b>Legacy Properties, Onipanu Lagos:</b>			
UHSL Plc, 153 Ikorodu Road	785,000	-	785,000
UHSL Plc, 32 Awolowo Road, Ikoyi	508,000	-	508,000
UHSL Plc, 64, Opebi Road Ikeja	356,000	-	356,000
UHSL Plot 1479 Ogaaro, Crescent, Garki Abuja	820,000	-	820,000
FGN Sukuk	-	300,000	300,000
	<b>11,157,027</b>	<b>451,786</b>	<b>11,608,813</b>

**Movement in the year ended 31 December, 2016**

Apartment at McDonald Court			
Block 4-6 McDonald Rd, Ikoyi Lagos	1,120,625	-	1,120,625
11A Sapara Williams Str. V/I Lagos	1,424,535	193,998	1,618,533
Plot 3, Block A4, Olusegun Aina Str. Ikoyi	450,000	2,625	452,625
9, Mike Akhigbe Way, Abuja	330,000	-	330,000
1 Sinai Daranijo Street, V/I	2,200,000	-	2,200,000
Victors Courts, No. 2, Palace Rd, Parkview	300,000	-	300,000
28a, Rumens Street, Ikoyi	1,702,243	-	1,702,243
Amina Court	310,900	-	310,900
Locke apartments	370,570	282,531	653,101
<b>Legacy Properties, Onipanu, Lagos</b>			
UHSL, 153, Ikororu Road	785,000	-	785,000
UHSL 32, Awolowo Road koyi	508,000	-	508,000
UHSL 64, Opebi Road, Ikeja	356,000	-	356,000
UHSL Plot 1479 Ogoaro crescent, Garki, Abuja	820,000	-	820,000
	<b>10,677,873</b>	<b>479,154</b>	<b>11,157,027</b>

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER, 2017 (Cont'd)**

	2017 N'000	2016 N'000
<b>12. Rent received in advance At 31 December</b>	<b>111,178</b>	<b>91,640</b>
<i>Analysed into:</i>		
Current liability	90,678	90,252
Non-current liability	20,500	1,388
	<b>111,178</b>	<b>91,640</b>
<b>Movement in rent received in advance</b>		
Balance at beginning	91,640	169,614
Recognised as income during the year	(200,064)	(217,094)
Rent received during year	219,602	139,120
<b>Balance at end</b>	<b>111,178</b>	<b>91,640</b>

31 December, 2017 Property at	Type	Current Portion N'000	Non-current portion N'000	Expiry date
Locke Apartment at Lekki	Residential	20,723	-	20/11/2018
Rumens Road	Residential	22,299	10,000	31/3/2019
Victors Court	Residential	7,088	-	6/11/2018
Amina Court at Abuja	Residential	241	-	31/5/2018
Sapara Williams	Residential	21,517	10,500	14/5/2019
Olusegun Aina	Residential	3,620	-	31/7/2018
McDonald Court	Residential	15,190	-	30/9/2018
		<b>90,678</b>	<b>20,500</b>	



**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER, 2017 (Cont'd)**

31 December, 2016 Property at	Type	Current Portion N'000	Non-current portion N'000	Expiry date
Locke Apartment at Lekki	Residential	22,634	-	20/11/2017
Rumens Road	Residential	35,557	943	14/02/2018
Victors Court	Residential	5,001	-	07/11/2017
Amina Court at Abuja	Residential	10,614	-	24/05/2017
Olusegun Aina	Residential	8,201	-	31/07/2017
McDonald Court	Residential	5,240	-	30/04/2017
Mike Akhigbe Jabi	Residential	3,005	445	28/02/2018
		<b>90,252</b>	<b>1,388</b>	

	2017 N'000	2016 N'000
<b>13. Accruals and other payables</b>		
Accruals (13.1)	272,559	276,745
Other payables (13.2)	195,463	182,612
	<b>468,022</b>	<b>459,357</b>

	2017 N'000	2016 N'000
<b>13.1 Accruals</b>		
Accrued income	159,049	108,998
Accrued AGM expenses	-	11,305
Interest received in advance	110,510	148,442
Audit and other professional fees	3,000	8,000
	<b>272,559</b>	<b>276,745</b>

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER, 2017 (Cont'd)**

	2017 N'000	2016 N'000
<b>13.2 Other payables</b>		
Sundry customers	29,238	3,024
Management fees (note 14.3)	129,178	129,950
Trusteeship fee	2,500	5,250
Rating agency fee	-	10,250
Withholding tax	15,900	7,954
Caution deposit	4,050	-
Other payable	1,680	-
Custodian fees	12,917	26,184
	<b>195,463</b>	<b>182,612</b>
<b>13.3 Management fees</b>		
Provision for the year	129,380	130,152
Reimbursable from fund manager	(202)	(202)
	<b>129,178</b>	<b>129,950</b>

Trusteeship and rating agency fees computed at rates specified in accordance with the Trust Deed provisions were made in these financial statements as follows:

Management fee	1% of net assets
Trustee fee	N2,500,000 minimum
Rating agency fee	N2,500,000
Registrars fee	on transaction basis
Guarantors fee	0.5% of net assets
Custodian fees	0.10% of net assets

	N'000	N'000
<b>14. Property maintenance costs</b>		
a) <b>Expenses</b>		
At beginning	24,710	30,279
Incurredduring the year	(26,941)	(37,770)
<b>Charge to income statement Admin expenses</b>	<b>(2,231)</b>	<b>(7,491)</b>
b) <b>Provision</b>		
Provision for the year (note 14.1)	20,013	24,710
<b>At the end</b>	<b>20,013</b>	<b>24,710</b>

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER, 2017 (Cont'd)**

**14.1** Provision for the annual property maintenance fund is at 4% of the gross income earned in the year. This amount is set aside to meet incidental maintenance costs of the Fund's Property.

	2017 ₦'000	2016 ₦'000
<b>15. Unit holders equity</b>		
<i>Units offered for subscription:</i>		
970,873,787 units at ₦51.50 each	50,000,000	50,000,000
<i>Units issued and fully paid up</i>		
250,019,781 units at ₦50 each (nominal value)	12,500,989	12,500,989

On 19 August, 2008, the Fund offered 970,873,787 units of N50.00 each for subscription. Out of this offer, applications were received for 250,019,781 units. The Fund subsequently issued 250,019,781 units of N50 each at N51.50 each as these were fully subscribed for and paid for by their subscribers. The share premium on the units sold were used to offset the initial public offer expenses.

	12 Months ended 31 Dec. 2017 ₦	12 Months ended 31 Dec. 2016 ₦
<b>16. Retained earnings</b>		
At the beginning	(87,615)	(458,673)
Transfer from income statement	294,706	371,058
	<b>207,091</b>	<b>(87,615)</b>
<b>17. Cashflow reconciliation</b>		
i) Operating profit before working capital changes		
Net income before tax	324,998	394,998
Adjustments		
Depreciation	11,945	3,150
Investment properties write off	2,291	-
	<b>339,234</b>	<b>398,148</b>
ii) Working capital changes		
Net decrease/(increase) in receivables and other assets	27,492	(188,733)
Net (decrease)/increase in other liabilities and provisions	(4,271)	(62,759)
Net decrease in payables to related parties	-	(131,695)
Net increase in accruals and other payables	8,665	275,974
Net (decrease)/increase in rent received in advance (non-current)	19,112	(20,784)
<b>Net cash flow from operating activities</b>	<b>50,998</b>	<b>(127,997)</b>

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER, 2017 (Cont'd)**

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**18. Related party transactions**

During 2017 financial year, there was no related party transaction recorded in the company.

**ii) Management fee**

Management fee payable for the yearended 31December, 2017in respect of this service is calculated at1% of the net asset value of the Fund. This has been calculated to be N129,380,150 which represents 25.86% per annum of the gross income for the year.

**19. Comparative figure**

Certain prior year balances have been reclassified to conform with current year presentation.

**20. Comparative figure**

Certain prior year balances have been reclassified to conform with current year presentation.

**21. Going concern**

The financial statements are prepared on the basis of accounting policies applicable to going concern.

**22. Contingent Liabilities**

The fund manager is of the opinion that there are no known contingent liabilities as at the end of the period.

**23. Approval of Financial Statements**

These financial statements were approved by the Investment Committee of the company on 11 April, 2018.

## STATEMENT OF VALUE ADDED FOR THE YEAR ENDED 31 DECEMBER, 2017

	2017 N'000	%	2016 N'000	%
Gross earnings	530,622		617,752	
<b>Deduct:</b>				
Administrative overheads and payments for other services in Nigeria	(64,299)		(89,452)	
<b>Value added</b>	<b>466,323</b>	<b>100</b>	<b>528,300</b>	<b>100</b>
<b>Applied as follows:</b>				
Fund manager's remuneration	129,380	28	130,152	25
Government as taxes	30,292	6	23,940	4
<b>Retained earnings for future</b>				
Expansion, distribution and maintenance of assets				
Depreciation	11,945	3	3,150	1
Net income after taxation	294,706	63	371,058	70
<b>Value added</b>	<b>466,323</b>	<b>100</b>	<b>528,300</b>	<b>100</b>

## FINANCIAL SUMMARY

	12 Months 31/12/2017 R'000	12 Months 31/12/2016 R'000	12 Months 31/12/2015 R'000	12 Months 31/12/2014 R'000	12 Months 3/12/1013 R'000
Cash and cash equivalents	417,392	269,009	1,715,476	2,694,705	2,677,798
Other assets	6,893	8,103	4,907	6,244	5,172
Trade and other receivables	318,286	344,568	159,031	225,409	328,739
Investment properties	11,608,813	11,157,027	10,677,873	9,719,625	11,603,572
Property, plant & equipment	41,233	50,554	-	-	-
Financial assets held to maturity	914,676	1,159,020	-	-	-
	<b>13,307,293</b>	<b>12,989,081</b>	<b>12,557,287</b>	<b>12,645,983</b>	<b>14,615,281</b>
<b>Liabilities</b>					
Rent received in advance	111,178	91,640	169,614	216,815	109,178
Payables to related parties	-	-	131,695	118,763	135,858
Accruals and other payables	468,022	459,357	183,383	770,140	409,884
Provisions	20,013	24,710	30,279	21,631	15,447
	<b>599,213</b>	<b>575,707</b>	<b>514,971</b>	<b>1,127,349</b>	<b>670,367</b>
<b>Equity</b>					
Unit holders equity	12,500,989	12,500,989	12,500,989	12,500,989	12,500,989
Retained earnings	207,091	(87,615)	(458,673)	(982,355)	1,443,925
	<b>12,708,080</b>	<b>12,413,374</b>	<b>12,042,316</b>	<b>11,518,634</b>	<b>13,944,914</b>
	13,307,293	12,989,081	12,557,287	12,645,983	14,615,281
<b>Profit and loss</b>					
Investment income	<b>530,622</b>	<b>617,752</b>	<b>756,978</b>	<b>880,297</b>	<b>844,559</b>
Loss/profit before taxation	324,998	394,998	526,798	(1,256,583)	623,380
Taxation	(30,292)	(23,940)	(3,115)	(33,589)	(30,165)
<b>Profit after taxation</b>	<b>294,706</b>	<b>371,058</b>	<b>523,683</b>	<b>(1,290,172)</b>	<b>593,215</b>
Per share information					
Basic earnings per share (R)	1.18	1.48	2.09	(5.16)	2.37
Net assets per share (R)	50.83	49.65	48.17	46.07	55.78
Dividend paid (R)	-	-	-	2.13	2.41

## Application Form e-Dividend

Dear Unit-holder(s)

### UNIT-HOLDERS'S DATA UPDATE

In our request to update unit-holders data with the current technology in the Capital Market (i.e) e-Dividend, we require you to complete this form with the following information:

Tel: Nos: \_\_\_\_\_ CSCS A/C No: \_\_\_\_\_ STOCK BROKING FIRM \_\_\_\_\_

E-Mail Address: \_\_\_\_\_ Name of Bank \_\_\_\_\_

Branch of Bank \_\_\_\_\_ Bank Acct No. \_\_\_\_\_ Branch Code \_\_\_\_\_

No. of Units Held \_\_\_\_\_

NAME OF UNIT HOLDER

\_\_\_\_\_

PRESENT/NEW ADDRESS

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

NAME OF COMPANY IN WHICH YOU HAVE SHARES

UNION HOMES REIT

#### REGISTRARS USE

NAME \_\_\_\_\_

SIGNATURE \_\_\_\_\_

DATE \_\_\_\_\_

Please notify our Registrars, GTL Registrars Limited of any change in telephone, address and bank whenever it occurs.

yours faithfully

**UNION HOMES REIT**

Note: please be informed that by filling and sending this form to our Registrar, GTL Registrars Limited for processing, you have applied for the e-Dividend, thereby, authorizing UNION HOMES REIT to credit your account (in respect of dividends) electronically.

PLEASE COMPLETE AND RETURN TO

GTL REGISTRARS LIMITED

274, Muritala Muhammed way,

Yaba,

Lagos.

SIGNATURE/RIGHT THUMBPRINT OF UNIT HOLDER

In the case of Corporate Unit holder, use company seal



**Affix N50.00  
Postage Stamp  
Here**

THE MANAGING DIRECTOR  
GTL REGISTRARS LIMITED  
274, MURITALA MUHAMMED WAY,  
YABA,  
LAGOS.  
E-MAIL: [info@gtlregistrars.com](mailto:info@gtlregistrars.com)

Fund Manager:



RC 956192

**SFS Capital Nigeria Ltd**  
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