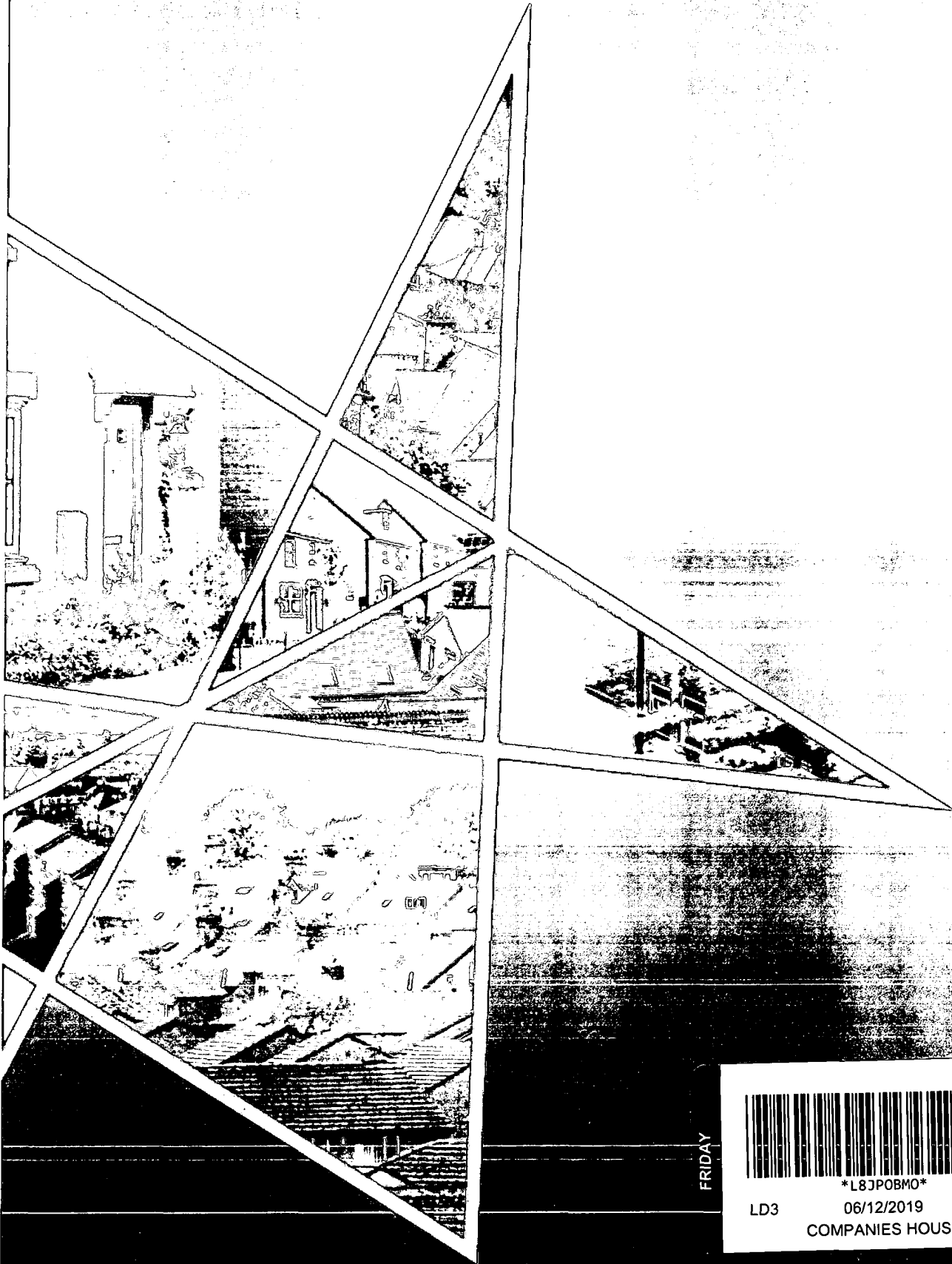


# Residential Secure Income plc Annual Report 2019



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## About Us

Residential Secure Income plc ("ReSI") is a real estate investment trust (REIT) listed on the premium segment of the Main Market of the London Stock Exchange with the objective of delivering secure inflation linked returns by investing in affordable shared ownership, retirement and Local Authority housing throughout the UK.

ReSI targets a secure, long-dated, inflation-linked dividend yield of 5.0% p.a. (paid quarterly) and a total return in excess of 8.0% p.a. and has to date committed c. £300 million, assembling a portfolio of 2,677 properties.

ReSI aims to make a meaningful contribution to alleviating the UK housing shortage by meeting demand from housing developers (Housing Associations, Local Authorities and private developers) for long-term investment partners to accelerate the development of socially and economically beneficial new affordable housing.

ReSI's subsidiary, ReSI Housing Limited, is registered as a for-profit Registered Provider of Social Housing, and so provides a unique proposition to its housing developer partners, being a long term private sector landlord within the social housing regulatory environment. As a Registered Provider, ReSI Housing can acquire affordable housing

subject to s106 planning restrictions and housing funded by government grant.

ReSI is managed by ReSI Capital Management Limited ("RCM"), a wholly-owned subsidiary of TradeRisks Limited which has an 18 year track record of executing transactions within the UK social housing sector and, to date, has arranged funding of over £11 billion in the social housing, care and other specialist residential property sectors.

Acquisitions by ReSI are limited to homes with sufficient cashflows, counterparty credit quality and property security to be capable of supporting long-term investment grade equivalent debt.

ReSI does not manage or operate stock and uses experienced and credit-worthy third party managers.



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## Governance

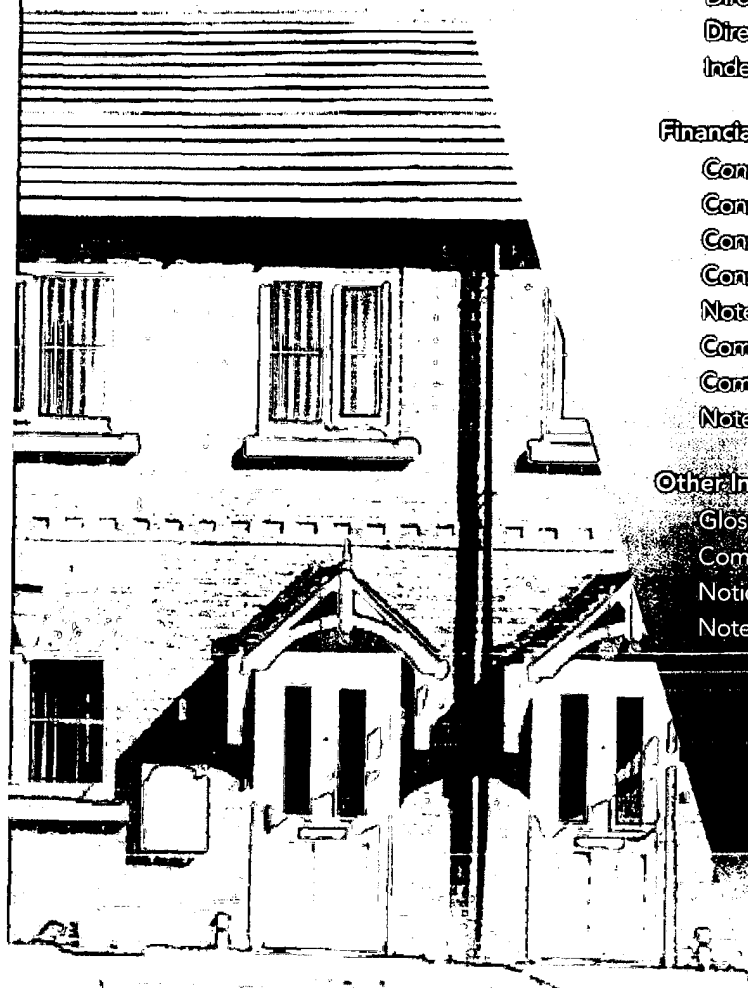
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# Key Highlights

as at 30 September 2019

## Financial Highlights

### 108.6p/+3.3%

**Net Asset Value per share**

IFRS Net Asset Value per share, an increase of 3.5p or 3.3% (versus Net Asset Value per share of 105.1p at 30 September 2018)

### £185.7m/+1.2%

**Net Asset Value**

IFRS Net Asset Value, an increase of £2.1m versus Net Asset Value of £183.6m as at 30 September 2018

### £155.6m

**Market Capitalisation**

Market Capitalisation of equity at 30 September 2019 (2018: £164.9m)

### 7.7p

**Earnings per share**

Profit after tax per share including revaluations based on IFRS NAV (2018 9.0p)

### £321m

**Value of Investment Property**

Fair Value of investment property at 30 September 2019, excluding adjustment to fair value for the finance lease asset, plus committed properties with purchase contracts exchanged (2018: £225m) (See note 16 on page 62)

### £108.2m

**Debt Outstanding**

(2018: £53m) The debt has a weighted average remaining life of 19.5 years

### 5.0p

**Dividend per share**

Dividends declared for the year to 30 September 2019 (2018: 3.0p); targeting 5p per share annually thereafter increasing broadly in line with inflation

### £8.7m/+3.9%

**Valuation uplift**

Increase in fair value of investment property in the year to 30 September 2019 (2018: £14.8m)

### 36.3%

**GAV Leverage Ratio**

Ratio of total debt outstanding against Gross Asset Value (excluding adjustment for finance lease asset) (2018: 21.5%) (see note 35e on page 72)

### £302m

**Capital deployed**

Total invested in acquiring properties up to 30 September 2019 inclusive of £60m committed at Clapham Park (2018: £210m)

### 1.5%

**Ongoing charges ratio**

Ongoing charges ratio based on year end NAV, including 1.0% for the Fund Manager's fee (2018: 1.5%) (See note 8 on page 60)

### 2.8m

**Shares**

Held by the Fund Manager, directors of the Fund Manager, and Directors of ReSI plc. Equal to 1.6% of the total number of shares outstanding as at 30 September 2019 (2018: 2.3m)

## Operational Highlights

### 2,677

**Homes acquired**

2,677 homes acquired spread across the UK as at 30 September 2019 including 132 homes at Clapham Park due to complete in Q1 2020 (2018: 2,362)

### £4.27

**Social Impact per Share**

£731m total social impact over 25 years, or £2.49 for every £1 invested in ReSI's properties (see page 10)

### Over 80%

**Of homes located in Southern England**

Percentage of the total portfolio located in Southern England, defined as the South East, South West, East Anglia and Greater London (2018: over 80%)

### £11.2m

**Net rental income**

Net rental income (net property income less ground rents disclosed as finance lease interests) for the year to 30 September 2019 (2018: £5.3m) (see note 6 on page 59)

### 5.0%

**Net yield**

Net rental income divided by capital deployed to income-producing assets (2018: 5.0%) (see note 36 on page 72)

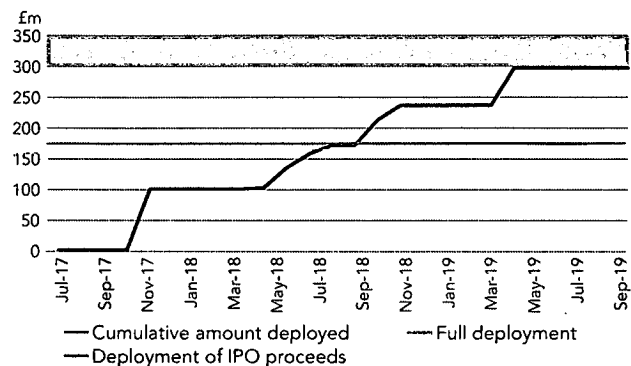
### 655

**Locations**

Number of unique locations where properties are owned across the United Kingdom (2018: 610)

# Portfolio Summary

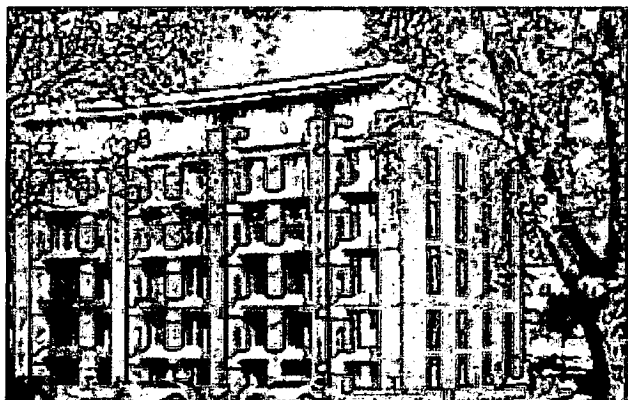
## Deployment Timeline



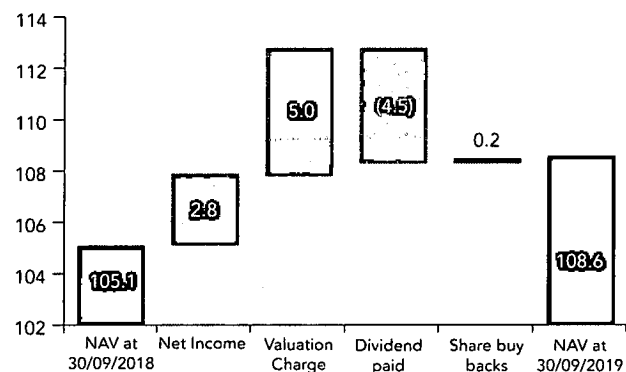
## Portfolio allocations by value

### Shared Ownership Homes

£72m – 166 units – 22%

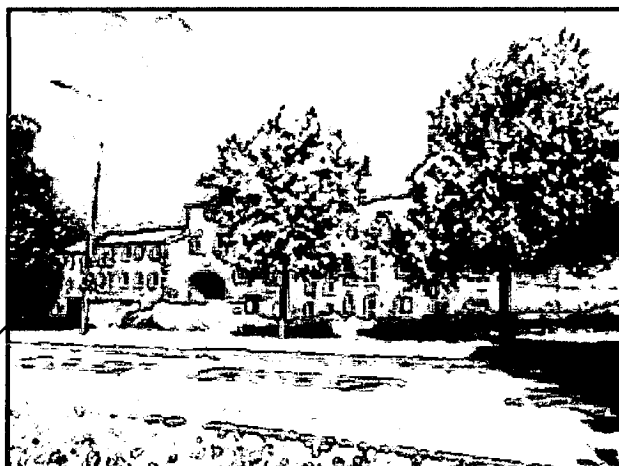


## Movements in NAV per Share



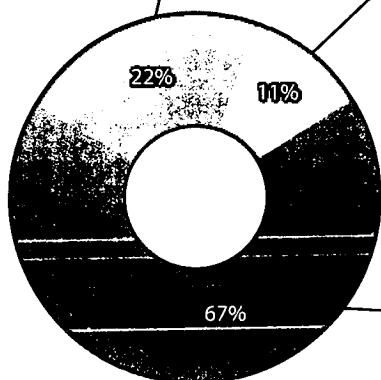
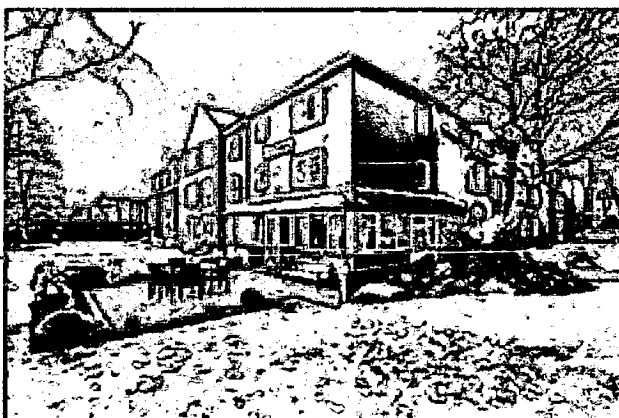
## Local Authority Housing

£35m – 289 units – 11%



## Retirement Rental Homes

£215m – 2,222 units – 67%



# Investment Strategy

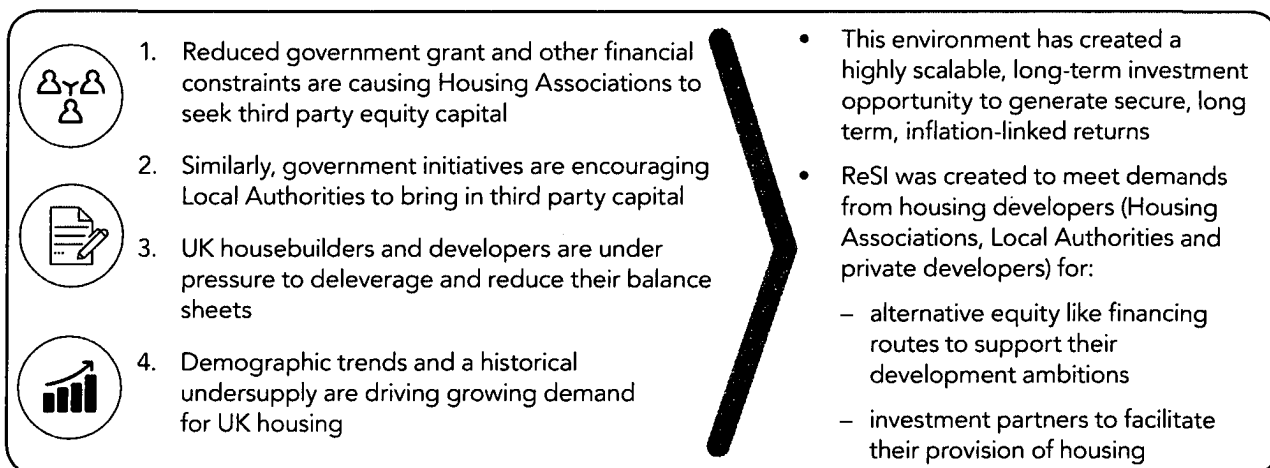


ReSI seeks to provide its shareholders with income and capital appreciation in excess of inflation by acquiring and holding residential social housing assets including affordable shared ownership, retirement and Local Authority housing.

## ReSI's Investment Strategy

- ReSI's investment strategy is to deliver a secure income stream from a residential social housing portfolio benefiting from:
  - below market rents ensuring on-going tenant demand;
  - diverse income stream from less economically sensitive tenants; and/or
  - strong counterparty covenants and managers – shared equity tenants, Local Authorities, large credit-worthy Housing Associations
- Acquisitions are fundamentally limited to homes with sufficient cashflows, counterparty credit quality and property security to be capable of supporting long-term investment grade equivalent debt (at 50% leverage on average).
- Seeks to deliver an inflation-linked target of 5% p.a. dividend and total return in excess of 8% p.a.

## Key Investment Themes



ReSI offers a highly scalable, long-term investment opportunity generating secure, inflation-linked returns from a defensive asset class that is supported by strong demographic and structural drivers.

ReSI's long-term economic objectives make it an attractive partner for Housing Associations, Local Authorities and private developers who favour partners with business models to invest and hold assets over the long term.

ReSI's subsidiary ReSI Housing Limited became a Registered Provider of social housing in July 2018 and is therefore able to acquire properties designated as affordable and which are funded by government grant, expanding ReSI's pool of potential investments to include those developed by the private sector.



ReSI Capital Management Limited ("RCM"), a wholly-owned and separately regulated subsidiary of TradeRisks Limited, is ReSI's Alternative Investment Fund Manager.

ReSI has a fully independent board of experienced non-executive directors.

In addition, ReSI Housing Limited, the Group's for profit Registered Provider of social housing, has its own board with experienced non-executive directors that include David Orr, previously chief executive of the National Housing Federation, and Gillian Rowley, former Head of Private Finance at the Homes & Community Agency.



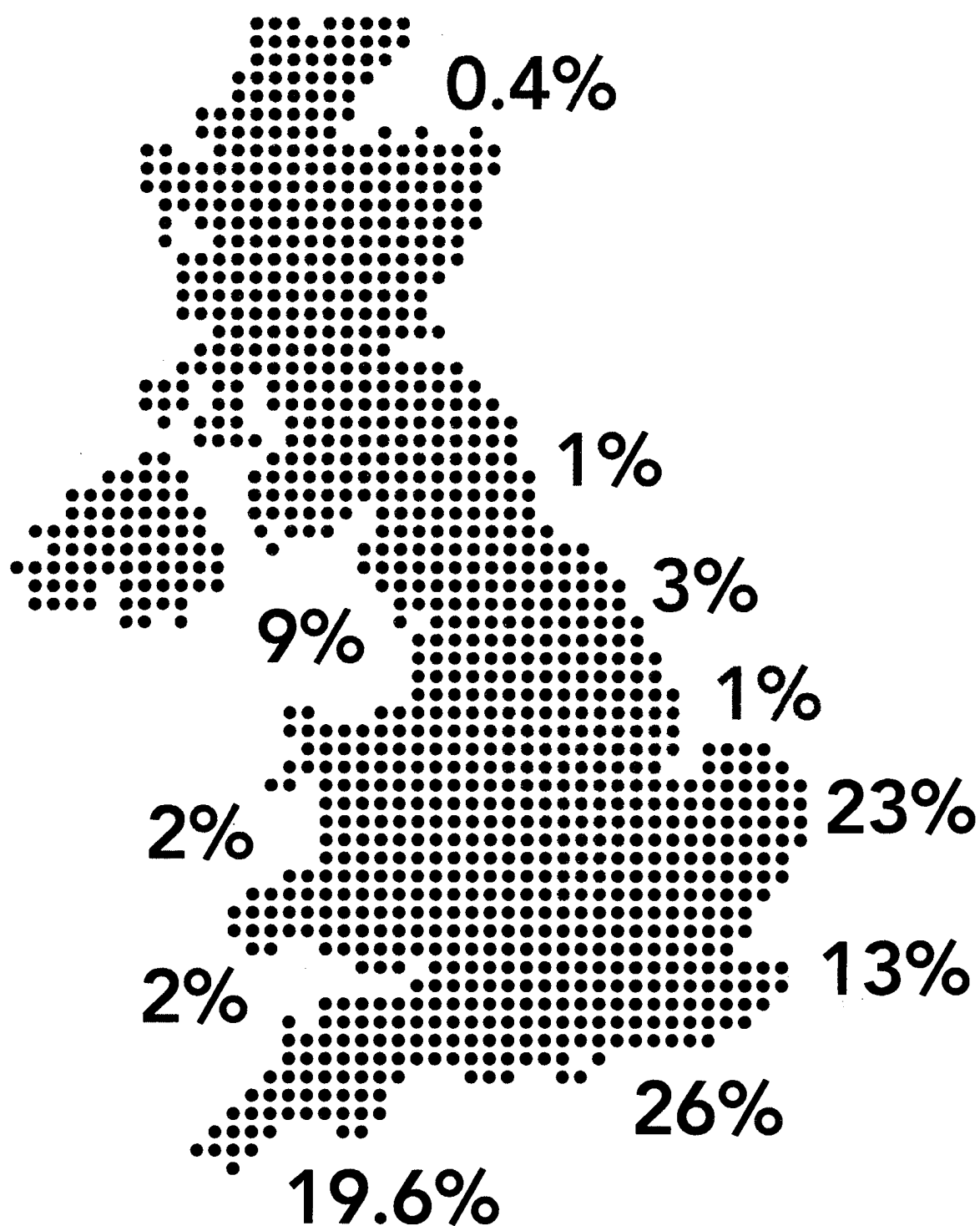
TradeRisks is a risk advisory firm and financing arranger focused on social housing and other specialist residential property and social infrastructure sectors.

TradeRisks has advised on and arranged funding of over £11bn for social housing and other specialist residential property. It has advisory or transactional relationships with many of the larger UK Housing Associations, together representing c. 1.2m homes.

TradeRisks uses its significant debt financing expertise to lock in returns on assets at the point of acquisition, by arranging long-term investment grade debt which matches asset cashflows.

# Investment Portfolio

Since IPO, ReSI has assembled a portfolio of 2,677 homes comprising: 166 (22.3% by value) Shared Ownership homes, 289 (10.8% by value) Local Authority housing units and 2,222 (66.8% by value) Retirement Rental homes.



## Shared Ownership



- Shared Ownership will be the predominant focus of ReSI's ongoing investment.
- Shared Ownership allows households earning up to £90,000 per annum in London and £80,000 in the rest of England to buy an initial stake of at least 25% in a property and pay a below market rent on the remaining part.
- Shared Owners have the option to staircase (i.e. to purchase a bigger share in the property at the then market value), crystallising expected valuation growth for ReSI.

### Social impact

- Shared Ownership opens the door to home ownership by enabling a broad range of buyers to purchase a home with a smaller deposit and lower annual payments than would be required under Help to Buy or an outright purchase.
- Creates additional sub-market rental homes.

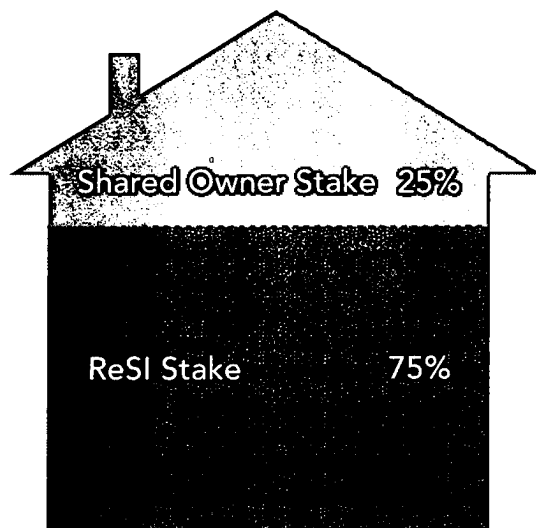
### Shared Ownership portfolio at a glance

- ReSI's portfolio consists of 166 new build apartments, purchased for £76m (including £60m committed with purchase contracts exchanged at Clapham Park). The apartments were originally intended for private sale and ReSI will use grant funding of £6m from the Greater London Authority's "Homes for Londoners" programme to deliver these as Shared Ownership.
- Shared Owners at these schemes require a starting deposit of £9.8k.
- 132 homes are part of Metropolitan Thames Valley Housing's ("MTVH") Clapham Park regeneration site and 34 homes are part of Crest Nicholson's Totteridge Place development.

- The Clapham Park portfolio is situated between Clapham, Brixton, Streatham and Balham, and forms part of MTVH's regeneration project on the Clapham Park estate.
- The regeneration will deliver 2,500 new homes (of which 700 have already been delivered), a community hub, a new community centre and new shops – all of which are designed to underpin the long-term prospects for the area.
- The Clapham Park purchase is expected to complete in Q1 2020 after some delays to Practical Completion by the constructor. Delays have been put to good use to increase the number of off-plan purchases.
- The Totteridge Place development completed in January 2019 and has been well-received by shared owners with to date 80% of the homes sold or with sales in progress.
- Managed by MTVH, one of the largest Housing Associations and a recognised leader in shared ownership delivering c.500 new shared ownership homes each year.
- There are c. 200,000 Shared Ownership Homes across England, and a total of 11,447 new Shared Ownership sales were made by Registered Providers/Local Authorities in 2018/9 (Housing Statistical Data Release: October 2019).
- Shared Ownership homes are held through ReSI Housing Limited – registered as a for-profit Registered Provider of social housing since 5 July 2018.



## Shared Ownership Overview



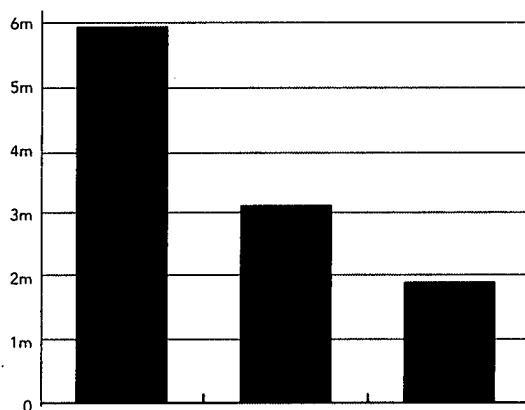
Shared Ownership is a **part buy, part rent** product that allows **people to get on the housing ladder**

### The Shared Owner:

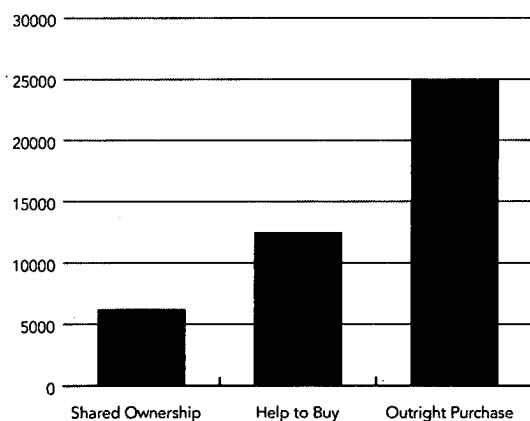
- Purchases an initial equity stake in their new home at open market value. This is known as the first tranche sale, typically 25%
- Pays a below market rent on the remaining unsold equity held by ReSI
- Has the option to staircase their home by purchasing additional shares in their home at the prevailing open market value

Shared Ownership makes property affordable to middle earners

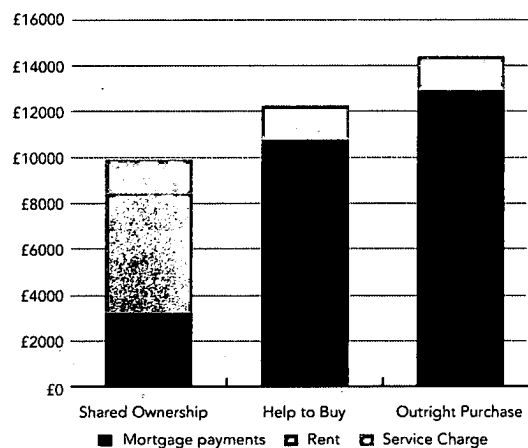
4 million more people meet the income requirements for purchasing a £250,000 home through Shared Ownership than an outright purchase



Smaller deposit requirements than Help to Buy or Outright Purchase

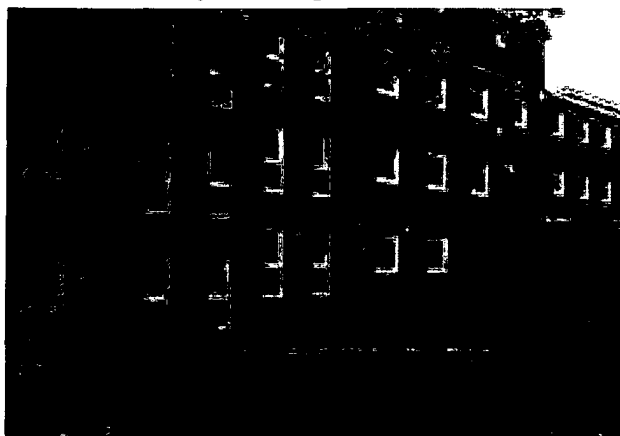


And lower annual payments



**Assumptions:** £250,000 home purchase; mortgage rate 3%; mortgage term 25 years; deposit requirement 10% (5% for Help to Buy); Shared Ownership rent 2.75%; service charge £1,500; Help to Buy equity loan 25%; 1st tranche Shared Ownership sale 25%; maximum housing costs 40% of post tax income

## Local Authority housing



- ReSI's aim is to become a long-term partner to Local Authorities who have a statutory duty to house those who are homeless or at risk of homelessness.
- ReSI's focus is on acquiring properties in areas with the highest need for accommodation and strong supply and demand dynamics, with rents set around market rent to minimise downside risk if the Local Authority does not renew a lease.

### Social impact

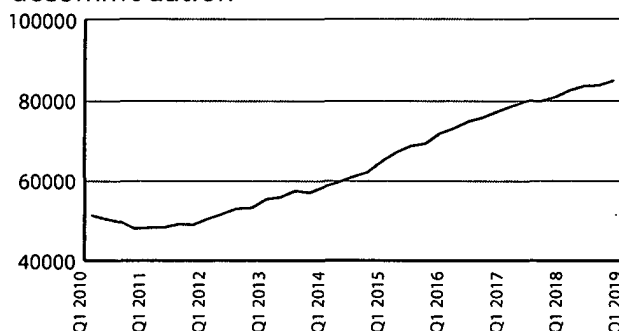
- The UK is facing significant demand for short term council housing nationally – there were 84,740 households in temporary accommodation as at March 2019, an increase of 77% from December 2010.
- New legislation introduced under the Homelessness Reduction Act 2017 places additional obligations on Local Authorities for housing vulnerable/statutory homeless people, creating further pressures on councils looking to increase their access to emergency and temporary housing.
- Local Authorities are increasingly unable to meet demand for temporary accommodation from their own housing stock (currently used to provide housing for 21% of households in temporary accommodation), diverting resources from other core services of Local Authorities.
- There is an increasing reliance on pay-nightly privately managed accommodation (accounting for 29% of those in temporary accommodation in December 2017, up from 9% in December 2011) and B&Bs (a further 8% of households in temporary accommodation), which is more costly than leasing from the private sector.
- As a result there is a shortfall between cost and support for temporary housing in London, the South East and other metropolitan areas. English Local Authorities spent £845m on temporary accommodation in 2015/16, a 39% increase in real terms from 2010/12. London Councils are meeting an estimated £170m per annum of this cost from their general fund.

- Rents at ReSI's properties are set at around long-term market rent levels, provide a cost saving to Local Authorities, who often have to rely on costly pay-nightly accommodation and B&B's (used to house 33% of households in temporary accommodation).
- ReSI provides Local Authorities with a long-term institutional landlord to replace the numerous individual landlords that Local Authorities currently rely upon and removes the difficulties that Local Authorities have with ensuring adequate standards across their rented estates.

### Local Authority housing portfolio at a glance

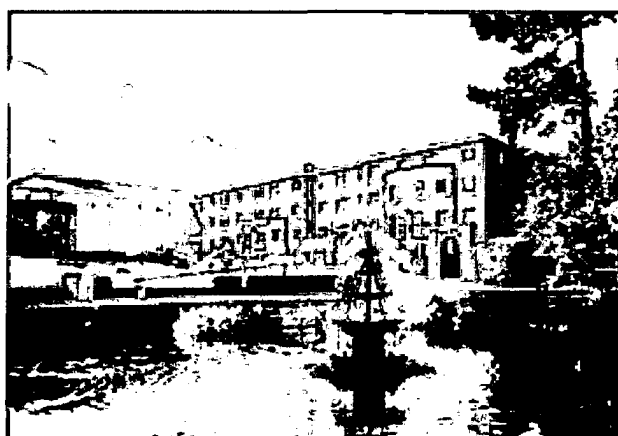
- 289 residential homes (2018: 289) in five freehold buildings
- Let to Luton Borough Council on leases with a weighted average remaining term of 7.0 years with no void risk
- Recently refurbished in 2016 and 2017
- Managed and maintained by Luton Borough Council and Mears
- Annualised net rent of £1.8m (2018: £1.8m)
- Secured £14.5m of 3 year debt partially fixed at a coupon of 2.56% (2018: £nil)

### Number of households in temporary accommodation



(Source: Ministry of Housing, Communities and Local Government)

## Retirement rental housing



Retirement Housing provides fit for purpose homes for retired people, allowing them to maintain their independence for longer, whilst freeing up larger homes for families.

- ReSI's rental income is delinked to the economy as tenants primarily pay their rent from pensions and housing benefits where applicable, rather than employment income.
- Almost 25% (by net operating income) of the portfolio is used to house the individual managing the retirement home for ReSI and other leaseholders, providing additional rental security.

### Social impact

- There has been a steady upward trend in life expectancy in the UK. By 2025 the average life expectancy of a person reaching retirement age is expected to reach c.22 years. As a result the UK population over 65 in 2025 is expected to be 22% higher than in 2015.
- Just 1% of UK over 60's live in purpose built retirement housing, compared to 13% in Australia and 17% in the USA.
- There is a very limited pipeline of retirement developments in the UK, with only 3% of consented developments being designed specifically for the elderly.
- Specialist retirement housing is accessible (e.g. without steep staircases) and easy to manage, enabling people to live independently in their own living space to a greater age, whilst still having access to some level of day-to-day and emergency support.
- According to Age UK, over 1 million older people say they always or often feel lonely. Nearly half of older people in the UK (49% of over 65's) say that television or pets are their main form of company, with one research report claiming that loneliness can be as harmful for

our health as smoking 15 cigarettes a day. Specialised retirement accommodation helps to foster a sense of community by offering shared spaces such as a residents' lounge and communal gardens.

- Residents are able to rent a retirement property through an assured tenancy, providing lifetime security of tenure without the burdens of home ownership, which can expose the resident to significant transaction costs on entry and on departure.

### Retirement rental portfolio at a glance

- 2,222 retirement rental homes within 651 purpose-built retirement housing blocks (2018: 2,073 homes).
- Includes 323 licensed rental homes used to house property manager within the accommodation they manage.
- Over 80% of the portfolio located in Southern England.
- New 10 year management and maintenance agreement signed in May 2019 with Places for People group.
- Extended the head lease term on 1,282 properties to 150 years since initial acquisition (2018: 1,003 properties).
- Annualised net rent, after ground rents, of £9.4m (2018: £8.7m).
- Secured £97m of 25 year partially amortising fixed rate debt at a coupon of 3.46% (2018: £53m at a coupon of 3.45%).

# Quantifying Social Impact

ReSI is committed to accelerating the development of socially and economically beneficial new housing to make a meaningful contribution to the UK housing shortage.

ReSI's homes deliver a social benefit through providing wellbeing improvements to tenants (e.g. by providing the security of a home for life), fiscal savings (e.g. lower costs for housing those at risk of homelessness and savings to the NHS), and wider economic benefits (e.g. by enabling people to live and find work in otherwise unaffordable parts of the country).

The social impact delivered by ReSI is readily quantifiable using methodologies accredited by Social Value UK and Social Value international.

ReSI's existing property portfolio delivers a total social benefit of £731m over 25 years, or £4.27 per share.

## Social Benefits of Different Types of Ownership within ReSI's portfolio

Social Tenancy Overall	Local Authority Housing	Retirement Rental	Shared Ownership
Financial wellbeing – reduced problems of rent and less punitive approach to arrears. Increased ability to find, retain and travel to work	Provides homes to those who are homeless or at risk of homelessness	Living with peers helps address loneliness, the largest health problem for the elderly population	Opens the door to home ownership
Physical wellbeing – positive health outcomes from provision of Homes to Decent Homes Standard	Provides savings to Local Authorities vs. hotels and B&Bs of £200 per week per unit	Supports independent living for longer	Provides lifetime security of tenure and greater security of future housing costs compared to renting privately or purchasing a home through Help to Buy
Mental wellbeing – positive mental outcomes due to stable and secure housing	Provides institutional landlord to ensure adequate standards of accommodation	Frees up large family homes for families	Creates additional sub-market rental homes
Value for money for tenants and capped and regulated rent levels	Good quality accommodation	Renting avoids the burdens and transaction costs of home ownership	Delivers social dividend through rental discount

## Overall impact of ReSI's Investment in Affordable Social Housing

	Investment	Social Impact over 25 years	Social Impact Ratio over 25 years
Shared Ownership	£77m	£209m	£2.71
Local Authority Housing	£34m	£168m	£4.94
Retirement Rental	£183m	£354m	£1.93
Overall Impact	£294m	£731m	£2.49

(Source: Social Profit Calculator)

# Chairman's Statement



**Rob Whiteman**  
**Chairman**

## Introduction

I am pleased to present the second annual results of Residential Secure Income plc ("ReSI" or the "Company") together with its subsidiaries (the "Group") which covers the year ended 30 September 2019 (the "Year").

These results build on the significant progress made by the Company during its first year and see ReSI delivering on both the target returns and the strategy outlined at IPO. We have further expanded the Company's portfolio, most notably by entering the shared ownership sector, and achieved strong valuation growth, while at the same time building a secure rental income stream that will be capable of supporting future dividends.

As a reminder, ReSI's objective is to deliver secure, long-dated, inflation-linked income and capital returns through investment in UK social housing. It aims to meet demand from housing developers (Housing Associations, Local Authorities and private developers) for long-term investment partners to accelerate the development of socially and economically beneficial new housing, making a meaningful social contribution by helping to alleviate the UK's housing shortage.

ReSI's acquisitions are selected to have sufficient cashflows, counterparty credit quality and property security to allow them to support long-term investment grade equivalent debt (at our target leverage of 50% on average).

We are also pleased to be able to highlight, in the prior section of this report, the positive social impact of our investments. We are a long-term holder of our assets and seek to provide additional to the existing social housing sector, for example by using grant to deliver – as new Shared Ownership – properties that would otherwise be sold in the open market.

We remain particularly enthusiastic about the opportunities that the Shared Ownership sector presents. Shared Ownership is increasingly being seen as an effective solution to lack of affordability across a range of value points, and is an efficient way for government grant funding to be used, as the grant translates directly into a subsidised level of rent with a lower annual housing cost than purchasing through Help to Buy. Shared Ownership

presents a very scalable investment opportunity, and we expect to be focussing our future deployment in this area.

## The Property Portfolio

ReSI has now fully invested the capital available to it from its IPO and its borrowings, having assembled a portfolio consisting of 2,677 properties (2018: 2,362) valued at £321m, including £60m committed at Clapham Park (2018: £225m) serving shared ownership tenants, Local Authority housing needs and the retirement sector.

In October 2018 we were pleased to announce ReSI's first Shared Ownership transaction, when we acquired 34 new build homes located in the London Borough of Barnet. This was followed in March 2019 by the exchange of contracts to acquire 132 homes in Clapham Park, London from Metropolitan Thames Valley Housing for £60m. This transaction is due to complete in Q1 2020 when the houses are built.

ReSI is utilising grant funding of £6m from the Greater London Authority's Homes for Londoners programme to deliver these as shared ownership, providing much needed affordable homes in London.

Both these Shared Ownership transactions are to be held by ReSI Housing, ReSI's Registered Provider. Having a Registered Provider enables the acquisition of properties that are designated as affordable accommodation under planning requirements and allows access to government grant programmes, thus greatly expanding the range of opportunities available to ReSI and also providing all stakeholders with assurance that the properties will be kept within the social housing regulatory environment.

The shared ownership portfolios are managed by MTVH, continuing our successful relationship with one of the UK's largest Housing Associations which is a specialist in providing and managing shared ownership properties. Through MTVH, ReSI is offering the opportunity to purchase a shared ownership home with a minimum initial stake of 25%. Our homes in London are available to those with a deposit of £9,800 and annual household incomes of between £52,000 and £90,000.

We were pleased to announce in January 2019 that, in order to generate a further pipeline of investments, ReSI Capital Management had entered into a £300m Housing Investment Partnership with Morgan Sindall Investments which gives exclusive access to invest in Morgan Sindall's conforming residential developments. The agreement will initially target 1,500 new shared ownership homes.

Where particularly good opportunities have arisen, ReSI has selectively added to its retirement homes portfolio, including a £7m purchase of 39 licensed retirement homes in October 2018. As a result, the retirement portfolio consists of 2,222 residential homes (2018: 2,073), including licensed house manager flats, located across England, Wales and Scotland.

The retirement units are used to provide age-restricted

# Chairman's Statement

continued

retirement housing or are licensed for use by the scheme house managers.

They are managed on behalf of ReSI by Places for People, one of the largest UK housing groups, with whom ReSI agreed a new 10 year management contract in May 2019. The vast majority of the units are long-leasehold properties, with a weighted average unexpired lease term which has increased to around 131 years after ReSI extended the term of a further 279 leases to 150 years, in a value-enhancing transaction which was announced previously and has helped to increase the value of the portfolio to £214.7m compared to £190.4m last year.

During the year, ReSI raised a further £58.5m of debt, £44m of which was 25 year fixed rate debt secured against 925 retirement homes and £14.5m of which was debt secured on its Local Authority housing portfolio.

## Financial results

ReSI's financial results for the year are strong, reflecting that ReSI's initial equity capital is now deployed and leverage is substantially deployed and that the property portfolio is performing well, as further described in the Fund Manager's report.

The Company maintained its rigorous and highly disciplined approach to selecting investments and was able to make acquisitions at attractive levels. This is reflected in the increase in ReSI's Net Asset Value, and the fact that the assets are producing the expected income.

During the year, the portfolio produced £19.6m of gross rental income (2018: £10.4m), in line with expectations, and as at 30 September 2019 its valuation, assessed by Savills, had increased by 9.8% in total over its aggregate purchase price. As a result, we remain fully confident in our overall investment strategy and our target dividend and return expectations are unchanged from those set out at the time of our IPO.

The Net Asset Value per share increased by 3.3% from September 2018 to 108.6p at 30 September 2019, representing a 10.8% increase from the 98.0p Net Asset Value per share immediately after IPO.

	£m	pence per share
Net Asset Value as at 30 September 2018	183.6	105.1
Net Income for year	4.7	2.8
Valuation change	8.5	5.0
Dividend paid	(7.7)	(4.5)
Net capital reduction	(3.4)	(2.0)
Impact of reduction in number of shares	-	2.2
Net Asset Value as at 30 September 2019	185.7	108.6

For the year ended 30 September 2019 ReSI recorded a net income of £4.7m (2018: £1.7m) excluding revaluations for the year. Total profit attributable to shareholders was £13.2m (2018: £16.1m) resulting in net earnings per share for the year of 7.7p (2018: 9.0p) comprising operating income of 2.7p (2018: 0.9p) and valuation gain of 5.0p per share (2018: 8.1p).

## Dividends

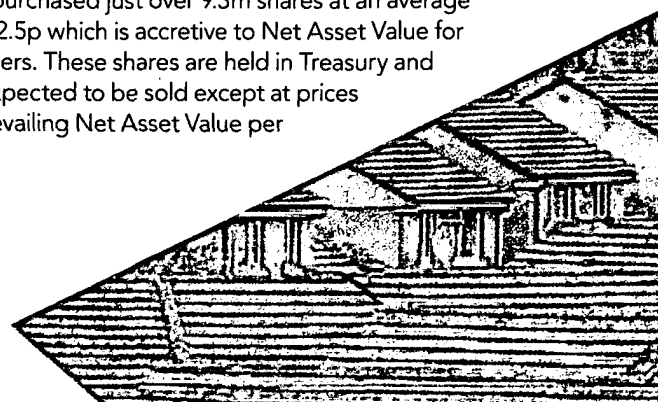
For the year ended 30 September 2019, ReSI has declared four equal dividends of 1.25p per share (in February, May, August and November 2019) totalling 5.0p per Ordinary Share, in line with our target at IPO and reaffirmed in our 2018 Annual Report.

We intend to continue to pay dividends to shareholders on a quarterly basis and in accordance with the REIT regime.

Given the progress in deploying ReSI's initial capital and in the portfolio becoming income-producing, ReSI reaffirms both its target dividend yield of 5% per annum (based on the issue price of 100p per Ordinary Share) for the year commencing 1 October 2019 and which we subsequently expect to increase broadly in line with inflation, and its target total return of in excess of 8% per annum.

## Share buybacks

ReSI commenced a share buyback programme in April 2018 in response to the discount in its share price below Net Asset Value. The programme allowed ReSI to invest in its own shares at attractive prices without compromising its ability to execute on its investment pipeline. To date, ReSI has purchased just over 9.3m shares at an average price of 92.5p which is accretive to Net Asset Value for shareholders. These shares are held in Treasury and are not expected to be sold except at prices above prevailing Net Asset Value per share.



In November 2018, ReSI paused its share buyback programme as it had reached the point where it needed to commit its capital resources to certain remaining shared ownership transactions in its investment pipeline, which offered good return on equity and met its strategic objectives. To the extent that ReSI has surplus capital, ReSI will always consider whether shareholder returns are best served by buying back further shares if they are available at a discount to Net Asset Value.

### ReSI Housing board changes

In March 2019, ReSI Housing, our Registered Provider of social housing, appointed Gillian Rowley, formerly Head of Private Finance at the former social housing regulator, the Homes & Communities Agency, as independent non-executive director alongside David Orr, who was appointed as independent Chairman of ReSI Housing in October 2018.

### Outlook

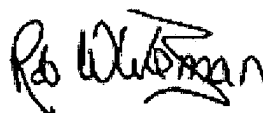
The well-documented shortage of housing in many parts of the United Kingdom continues to drive high levels of demand, and ReSI has seen strong appetite from the large, well-established Housing Associations we work with, as well as Local Authorities and private developers for new sources of capital to invest in housing in these areas.

ReSI has clearly demonstrated its ability, through ReSI Housing, our Registered Provider of social housing, to acquire properties designated as affordable accommodation, or those that are funded by government grant, including Shared Ownership. We continue to expect this route to be key to the future growth of our property portfolio.

ReSI has now substantially committed the capital raised at IPO, together with leverage currently at c.36% borrowings to GAV, and is now focussed on delivering the shared ownership part of its portfolio to becoming fully income-producing.

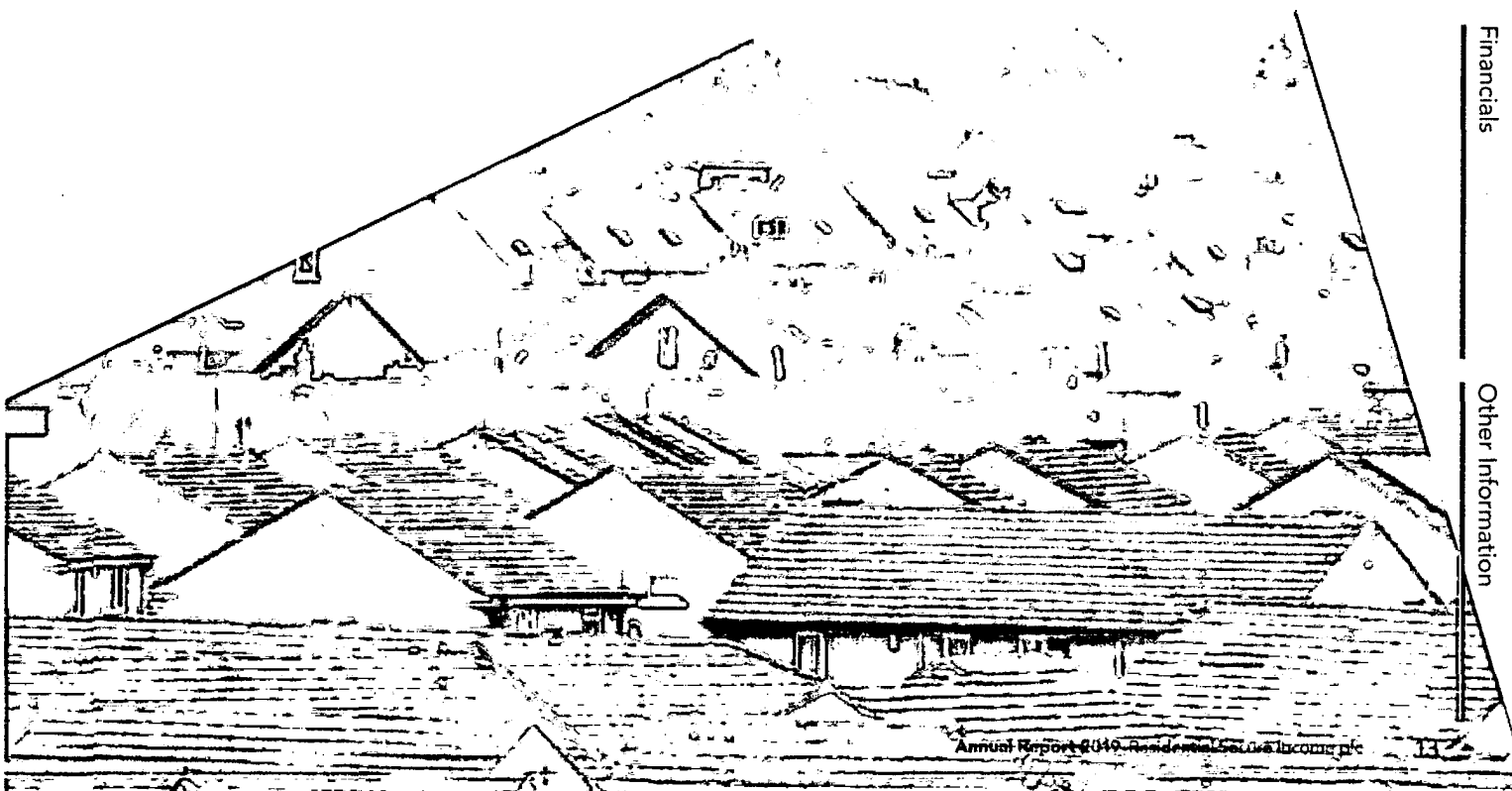
RCM continues to have available, through its relationships and through contractual agreements, a pipeline of high quality investments that meet ReSI's investment criteria and return thresholds and which could support ReSI's further growth.

The Board is grateful for the support of ReSI's shareholders and the contribution of its advisers.

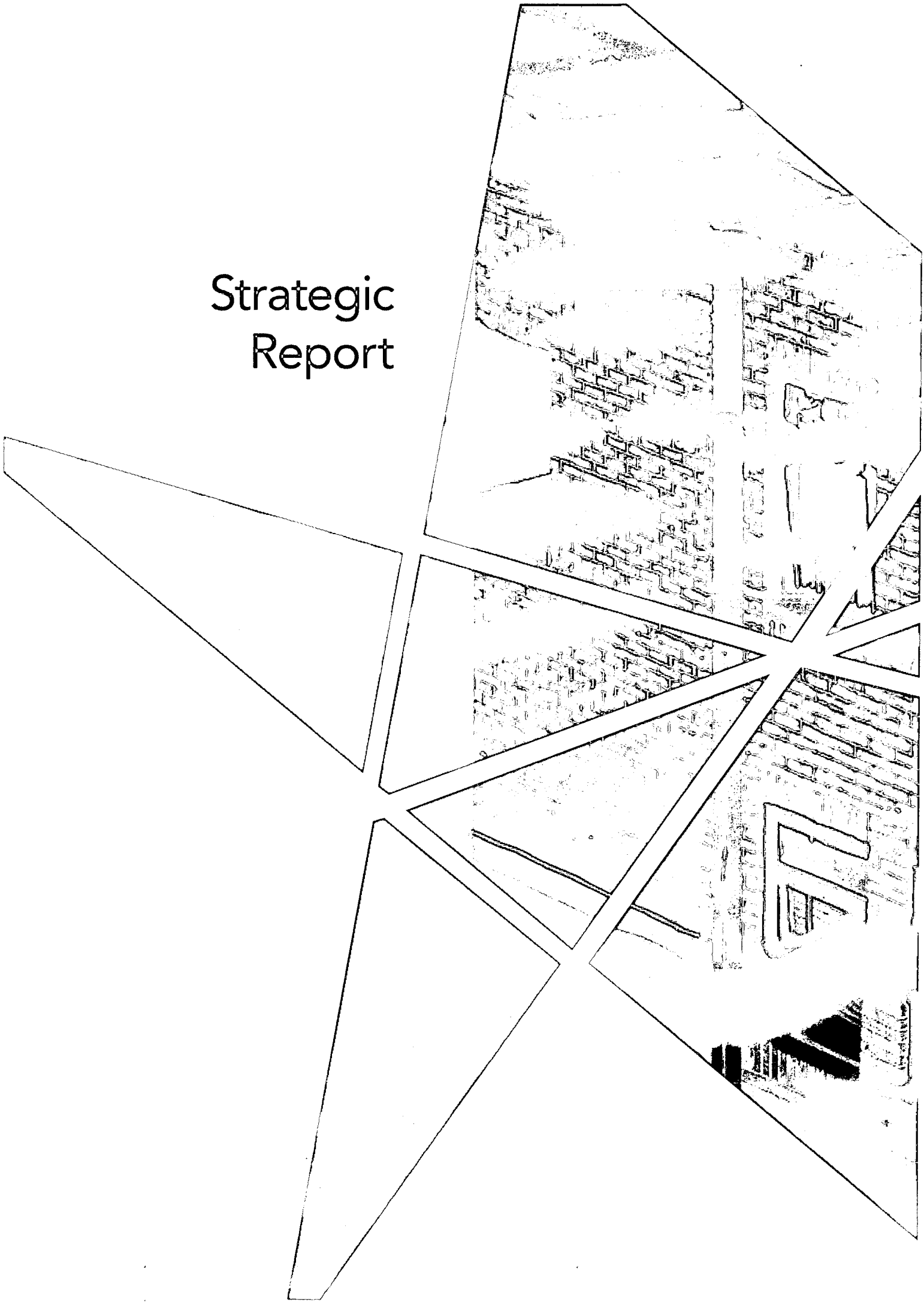


**Rob Whiteman**  
Chairman  
Residential Secure Income plc

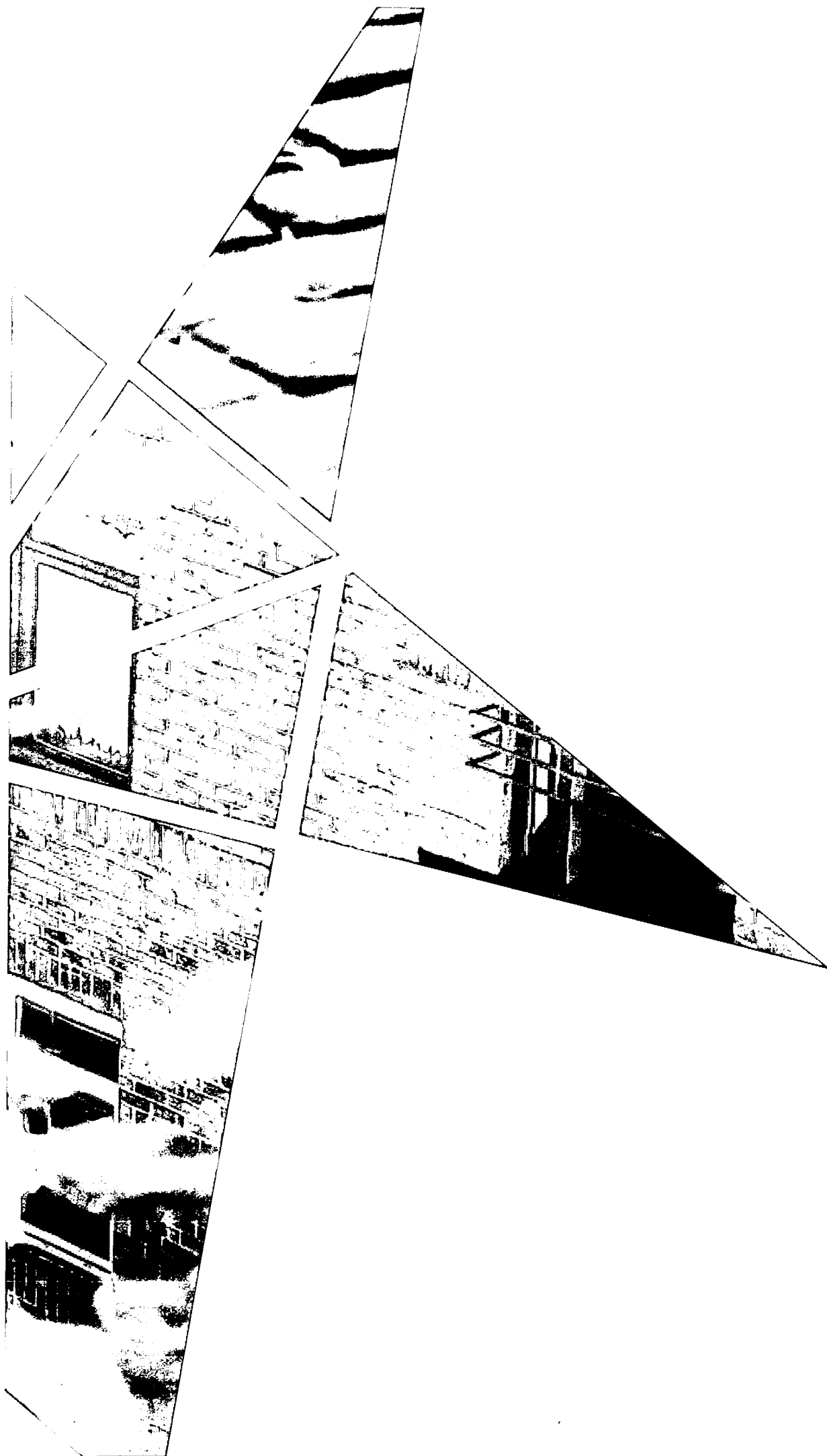
20 November 2019



# Strategic Report







# Fund Manager's Report



**Jonathan Slater**  
**Chief Executive**

In the year to 30 September 2019, ReSI's acquisition and origination activity has been focussed on shared ownership, with 166 homes being acquired in two transactions for a total consideration of £76m (including £60m committed with purchase contracts exchanged at Clapham Park).

These two purchases are supported by over £6m of government grant and utilise the legal and regulatory structure put in place during the previous financial year when ReSI's subsidiary, ReSI Housing, became a Registered Provider. This allowed access to otherwise restricted assets and grant funding opportunities, including becoming an investment partner of the Greater London Authority through its "Homes for Londoners" programme.

With these two transactions, along with other activity in the year, ReSI has now amassed a property portfolio valued at £321m, including Clapham Park, and consisting of 2,677 properties serving the retirement sector, Local Authority housing needs and Shared Owners.

Our proven ability to purchase through ReSI Housing as a Registered Provider has been important in continuing to grow the pipeline of potential future investments, particularly by allowing engagement with private developers to acquire their stock and deliver it as shared ownership using government grant. The main limitation on developers in delivering new homes is absorption rates for developments, and because shared ownership widens the pool of people who can buy a home, selling to ReSI to deliver as shared ownership allows accelerated rates of development, and supports return on capital and housing volume for developers, while providing an attractive investment profile for ReSI shareholders. This model is demonstrated by the Housing Investment Partnership agreed with Morgan Sindall in January 2019, which gives exclusive access to £300m of Morgan Sindall's development pipeline and which will initially focus on delivering 1,500 homes for use as shared ownership.

As a result, we have continued to generate a further strong pipeline of potential investments for ReSI. We have remained highly disciplined in selecting the

transactions we are prepared to undertake and believe that this is fundamental to delivering the long term secure returns expected by ReSI's shareholders.

The pipeline is focussed on shared ownership transactions, sourced via investment agreements and existing counterparty relationships.

ReSI and RCM have agreed an amendment to the Fund Management Agreement that replaces the obligation on RCM to present investment opportunities to ReSI ahead of other clients with an allocation policy that provides established criteria and aims to ensure opportunities are allocated in a way that a newly established committee considers fair, reasonable and equitable, taking into account ReSI and any other clients of RCM.

With ReSI being now effectively fully committed, this amendment improves the ability of RCM to service its £700m and growing shared ownership pipeline, thus protecting its credibility as a reliable counterparty and therefore the integrity of the pipeline until ReSI raises further capital.

## Social impact

The social impact of ReSI's investments is extremely important to us particularly in the delivery of new supply of social and affordable housing. In turn this makes ReSI an attractive partner to Housing Associations, Local Authorities and private developers. TradeRisks, which owns the fund manager, has been a long-standing promoter of the concept of "social economic value" which quantifies the benefits that affordable housing provides, focusing on the value of below market rents and the social benefits of a long term, secure, fit-for-purpose and well maintained home.

This can be through providing a lifetime home to shared owners with subsidised rents, or to those who are homeless or at risk of homelessness. It also includes enabling elderly populations to live with peers, which supports their independent living for longer.

We have engaged the Social Profit Calculator to quantify this social impact was £731m over 25 years, or £4.27 per share.

## Opportunities and investment focus

ReSI can invest across the range of types of residential housing owned by Housing Associations and Local Authorities. This allows management to optimise the portfolio amongst the available opportunities, taking into account prospective returns, security of those returns and diversification within the portfolio. We can either buy existing social housing stock or, through our for-profit Registered Provider, ReSI Housing, can buy unrestricted stock and use government grant to convert their use to affordable housing.

We have built a well-performing portfolio focussed on three areas, shared ownership, Local Authority

housing and retirement rental housing which all focus on underlying demographic trends and lack of availability of affordable accommodation for first-time buyers, the homeless and the elderly population. We expect ReSI's future investment capacity to be focussed predominantly on Shared Ownership.

The safety and wellbeing of our tenants is our highest priority and when making an investment we are rigorous in using the skills and expertise of our property team to provide high quality product and identify and mitigate all risks to tenants. Our lifecycle plans for accommodation take a conservative approach to the long term costs of ownership to ensure that the standard of quality is maintained or improved throughout the life of the property. At the same time, we only work with well-regarded partners to ensure all routine and other maintenance is undertaken promptly and properly.

### Shared Ownership

The case for raising equity-like capital within the social housing sector has increased since our IPO with the main Housing Association developers responding to government calls to increase the supply of housing. Under current arrangements this leads to increasing indebtedness, with a number of Housing Associations nearing their debt capacity. The annual publication by the Regulator of Social Housing (2018 Global Accounts of Registered Providers, December 2018) shows a slow but steady growth in debt as a proportion of net book value of properties. A recent survey by Savills (The Savills Housing Sector Survey June 2018 in association with the Social Housing magazine) demonstrates that, in terms of financing additional supply, the most quoted barrier is gearing capacity. In order to increase supply, Housing Associations need to overcome several barriers, ranging from access to land, financial constraints and increases in planning obligations for affordable housing. The growing trend for equity-like capital to fund new social housing is becoming more prevalent and is the only way that long-term capacity to develop can be assured.

We continue to work with the leading Housing Associations and private developers to both invest in their existing stock and forward-fund new properties in order to accelerate their development programmes. These discussions are primarily around multi-year programmes to become the equity funding partner of developers (both private and Housing Associations) and allow acceleration of development plans without using the developer's capital. Examples include our purchases from Crest Nicolson and MTVH as well as our framework agreement with Morgan Sindall.

We are particularly excited by our £60m shared ownership acquisition at Clapham Park, which provides the opportunity to partner with a well-regarded Housing Association in a landmark redevelopment project. MTVH's regeneration of the Clapham Park estate will

deliver 2,500 new homes (of which 700 have already been delivered), a community hub, a new community centre and new shops – all of which are designed to underpin the long-term prospects for the area. The acquisition will enable MTVH to recycle their sales proceeds directly into the delivery of further new homes.

We now expect to complete the purchase of Clapham Park in Q1 2020, which is slightly later than initially expected due to delays in Practical Completion by the constructor.

### Local Authority housing

Many Local Authorities, especially those in South East England, have in recent years experienced significant increases in households presenting as homeless. This is primarily a result of the critical shortage of both affordable and market housing, exacerbated by reforms to the Local Housing Allowance. Together these factors have left Local Authorities with a statutory duty to find housing for increasing numbers of households but without the permanent homes to do so. The 2018 Homelessness Reduction Act has further added to the pressure on Local Authorities to find housing solutions in order to prevent homelessness, building upon its 1996 predecessor, as amended by the Homelessness Act 2002, which places a duty on Local Authorities to secure accommodation for unintentionally homeless people who are in priority need. According to published reports, England had 84,740 households in temporary accommodation at the end of March 2019, which included 126,020 children. Demand for temporary accommodation has grown by over 75% since March 2011.

As such, we are working with a number of Local Authorities to provide good quality buildings as accommodation for vulnerable single people and families without relying on expensive and short-tenure solutions such as hotels or hostels. ReSI provides Local Authorities with a long term institutional landlord to replace the numerous individual landlords that they currently rely upon and removes the difficulties that are associated with ensuring adequate standards across their rented estates.

### Retirement rental housing

The UK population continues to age, with opportunities for downsizing for over 60's historically limited to renting sheltered accommodation owned by charities and Local Authorities, or buying into age-restricted accommodation blocks, which can expose the resident to significant transaction costs on entry and on departure. Surveys indicate that 25% of UK over 55's would like to buy or rent in a retirement village. However, the market is faced with a lack of supply of specialised retirement living options. We see significant opportunity to deliver an affordable, good quality, rental offering to provide accommodation that is fit for purpose without the burdens and transaction costs of ownership.

# Fund Manager's Report

continued

ReSI's retirement rental model provides retirees with an alternative to having to commit capital and costs to the purchase of a leasehold retirement flat, and offers them lifetime security of tenure at a known, RPI-linked rent.

## Performance

The property portfolio has generated gross income in line with expectations. Net income was slightly below expectations largely due to a decision to increase maintenance expenditure in the retirement homes portfolio aimed at improving letting rates and yields. The portfolio has again delivered a strong valuation uplift of £8.6m during the year. The largest contributor to this valuation increase, at £6.6m, was capital accretion due to the realisation of the contractual inflation-linked rent increases embedded in the portfolio. In the absence of changes to property valuation yields or other factors, such rent increases automatically drive capital accretion when the portfolio is revalued each quarter. One-off gains in the year were derived from asset management activity of £1.6m, including the negotiated lease extensions in the retirement portfolio announced in March 2019, and net gains of £0.3m on revaluation of new acquisitions made at favourable yields.

We have also been active in optimising the characteristics of the retirement rentals portfolio, leading to the sale of 12 properties, which realised gross proceeds on average 7% above their book valuation.

As at 30 September 2019, the Net Asset Value incorporates a 9.8% gain in the valuation of the portfolio above its aggregate initial purchase price. The NAV Total Return (combining NAV growth and dividends) is now 17.6p since immediately after IPO.

ReSI's completed income-producing acquisitions to 30 September 2019 deliver an unlevered yield of 5.0%. The retirement rental portfolio, with leverage in place, delivers a leveraged yield of 6.9%. The Local Authority housing portfolio, which is also now leveraged, produces a leveraged yield of 7.2%. Both portfolios deliver the income performance required to support our 5% per annum dividend target after fund costs.

In the shared ownership portfolio, ReSI has begun, through its manager and agent MTVH, the marketing process of offering First Tranche sales under which new occupiers will purchase a stake in their property and take up a shared ownership lease.

Marketing of Totteridge Place has proceeded well, with over four-fifths of homes now already sold or in progress and having achieved our target sales prices. The delay to the completion of the Clapham Park development has meant that full marketing of the homes has been correspondingly delayed, but we have put the time to good use by increasing the number of off-plan purchases and expect to continue making good progress as we approach completion now expected in Q1 2020. The income from the shared ownership

portfolio will ramp-up to its target level as shared owners move into their new homes.

ReSI's on-going expense ratio (annualised and based on closing NAV) is in line with our expectation, (as detailed in the 2018 Annual Report), of 1.5%. In addition, ReSI incurred aborted transaction costs equivalent to 0.1% in the year in connection with transactions that ReSI decided not to pursue following the results of property due-diligence.

## Borrowing

On 26 October 2018, ReSI completed a £40m debt financing secured on the retirement homes portfolio and which sits alongside the existing £53m debt financing. The financings are both at a fixed rate for a term of 25 years and represent a leverage of around 50% on the initial acquisition cost. In April 2019, a further £4m debt facility was agreed, secured against the retirement homes portfolio.

In January 2019, ReSI completed a £14.5m debt facility secured against its Local Authority portfolio. The financing is at a fixed rate for a 3 year term, pending refinancing with long-term debt in combination with other assets or pending an extension of the term of the underlying leases.

These debt financings form part of the strategy to target an overall level of indebtedness of 50% loan to gross asset value and a low cost of long-term funding, which together enhance the returns to equity available to ReSI shareholders and minimise exposure to interest rate and refinancing risks.

Since 30 September 2019, ReSI has continued to work with institutional debt investors and is in advanced due diligence with debt providers to put in place further investment grade equivalent debt against our Shared Ownership portfolio.



**Jon Slater**  
**Chief Executive**  
ReSI Capital Management Limited  
20 November 2019

## Investment objective

The Investment objective of ReSI is to provide shareholders with an attractive level of income, together with the potential for capital growth, from acquiring portfolios of Homes across residential asset classes that comprise the stock of Statutory Registered Providers. Such asset classes are categorised as Shared Ownership Homes, Market Rental Homes, Functional Homes and Sub-Market Rental Homes and will provide secure long-term inflation linked cashflows to the Group. The target is to deliver an inflation linked 5% p.a. dividend and total return in excess of 8% p.a.

## Background to the sector

The background to the need for additional affordable housing across the UK is well attested:

- significant growth in household numbers and constrained supply have led to poor affordability of houses; and
- tighter financial regulation that restricts access to mortgages is further driving demand for rental homes.

On average, people in work could expect to pay around 7.6 times their annual earnings to purchase a home in England and Wales in 2016, up from 3.6 times in 1997. The median price paid for residential property in England and Wales increased by 259% between 1997 and 2016, compared to a 68% increase in median individual annual earnings in the same year. No recent government has seen enough homes built to keep up with demand (Source: ONS, March 2017).

The housebuilding industry is producing 210,000 new homes per year in England, more than at any time since the global financial crisis in 2007. However, this is still less than both the Government's own assessment, which sets the annual housing need in England at 266,000, and the House of Lords Economic Affairs Committee which suggests over 300,000 new homes are needed each year to have any impact on affordability. The 2017 housing white paper explicitly identifies slow delivery as one of the major difficulties facing the housing market (Source: Savills Residential Property Forecasts, Autumn 2017). This is creating demand for new investment in housing, whether in social or private renting.

## Housing Associations and Local Authorities

Housing Associations and Local Authorities are increasingly seen as key in meeting the need to extend the supply of affordable housing and are seeking ways to access private sector capital to enable this supply. They are increasingly using different types of tenancy such as Shared Ownership to address affordability and to provide access to the housing ladder.

These factors produce demand for private sector investment into residential housing, and provide a highly scalable, long-term investment opportunity to generate secure, inflation-linked returns. ReSI aims to make a meaningful contribution to alleviating the UK housing shortage by meeting demand from housing developers (Housing Associations, Local Authorities and private developers) for long-term investment partners to accelerate the development of socially and economically beneficial new affordable housing.

ReSI's subsidiary, ReSI Housing Limited, is registered as a for-profit Registered Provider of Social Housing, and so provides a unique proposition to its housing developer partners, being a long term private sector landlord within the social housing regulatory environment. As a Registered Provider,

ReSI Housing can acquire affordable housing subject to s106 planning restrictions and housing funded by government grant.

## Transaction types

ReSI can invest across the range of types of residential housing typically owned by Housing Associations and Local Authorities and seeks to optimise the portfolio amongst the available opportunities taking into account prospective returns, security of those returns and diversification within the portfolio. ReSI applies the fundamental constraint that acquisitions should be able to support investment-grade equivalent debt. This ensures that each acquisition has the relevant combination of high quality properties, strong counterparties and secure income streams, and that it can be funded efficiently. We categorise the investment areas as follows:

## Rental Housing

### • Functional Homes

Functional Homes are properties equipped to provide elderly care facilities, assisted living facilities, supported housing or sheltered housing to residents.

In order to provide security of income, and to allow long-term debt funding, of investment grade equivalent credit strength to be put in place, ReSI enters into rental agreements in respect of Functional Homes with Statutory Registered Providers and Reputable Care Providers. The Statutory Registered Providers and/or Reputable Care Providers may also be providing care services.

### • Sub-Market Rental Homes

Sub-Market Rental Homes are properties made available to residents for rent at a level below the local market rent.

ReSI anticipates entering into rental agreements in respect of Sub-Market Rental Homes with Statutory Registered Providers to provide long-term income streams.

### • Market Rental Homes

Market Rental Homes are properties being made available to Residents at a market rent.

ReSI anticipates entering into rental agreements in respect of Market Rental Homes with Statutory Registered Providers, Universities and Reputable Private Landlords to provide long term income streams.

## Shared Ownership Homes

Shared Ownership Homes are properties where the beneficial interest is held in part by the Shared Owner and part held by ReSI, and the Shared Owner has sole use of the property in return for a rent payable to ReSI for its beneficial interest. The Shared Owner has the right to acquire a further portion of ReSI's retained beneficial (or heritable) interest (known as "staircasing") at market value.

ReSI will enter into a fully repairing and insuring Shared Ownership Lease with the Shared Owner, typically for a term of 125 years or over, and a Rent Collection and Management Agreement with a Statutory Registered Provider acting as Rent Collector and Manager.

ReSI can either buy existing Shared Ownership stock or, through our Registered Provider ReSI Housing Ltd, can buy unrestricted stock and use government grant to convert their use to Shared Ownership.

# Investment Objective, Policy and Restrictions

## Investment objective

The Company's investment objective is to provide Shareholders with an attractive level of income, together with the potential for capital growth, from acquiring portfolios of homes across residential asset classes that comprise the stock of Statutory Registered Providers. Such asset classes are categorised as Shared Ownership Homes, Market Rental Homes, Functional Homes and Sub-Market Rental Homes and will provide secure long-term inflation-linked cash flows to the Group.

## Investment policy

The investment policy is to invest in portfolios of homes throughout the United Kingdom.

The freehold or long leasehold (typically 100 years and longer) interest of homes will be acquired by the Company directly or indirectly (either through the acquisition of Home-owning vehicles or the entry into joint venture arrangements) with the benefit of long-term (typically 20 years and longer) inflation-linked cash flows.

In each case, the Group will outsource the day-to-day management, rent collection and maintenance in respect of a home. The Group will make use of leverage, put in place on or shortly after the acquisition of homes, to enhance returns on equity. The Group will only invest in Homes, and forward funding of homes, with sufficient cashflows, counterparty credit quality and property security that allow the Fund Manager to secure debt of a credit strength which is equivalent to investment grade based on published rating agency methodologies. This restriction to homes that can be funded with investment grade equivalent debt is the fundamental limitation on asset quality of the Company.

The Group will not undertake any direct development activity or assume direct development risk but may enter into forward funding arrangements without limit subject to the investment restrictions outlined below. These are arrangements with property developing entities (typically expected to be Statutory Registered Providers) whereby the Group forward funds the development of homes by such developing entities, which will be structured so that the only risk to the Group is the credit risk of such developing entity. Homes that are subject to a forward funding arrangement with the Group will be subject to a rental agreement with a Counterparty or Shared Ownership Lease with a Shared Owner contingent on completion of construction. In such circumstances, the Group will typically seek to negotiate the receipt of immediate income from the asset, such that the developing entity is paying the Group a return on its investment during the construction phase and prior to the tenant commencing rental payments under the terms of their lease. In addition, the Group may engage in renovating or customising existing homes, as necessary.

The Group aims to deliver capital growth by holding the Portfolio over the long term and therefore it is unlikely that the Group will dispose of any part of the Portfolio. In

the unlikely event that a part of the Portfolio is disposed of, the Group intends to reinvest proceeds from such disposals in assets in accordance with the Investment Policy.

## Investment restrictions

The Group will invest and manage the Portfolio with the objective of delivering a high quality Portfolio, which is fundamentally driven by the requirement that homes have sufficient cashflows, counterparty credit quality and property security that allow the Fund Manager to secure debt of a credit strength which is equivalent to investment grade based on published rating agency methodologies and which is subject to the following investment restrictions:

- the Group will only invest in homes located in the United Kingdom
- the homes will comprise Shared Ownership Homes, Market Rental Homes, Functional Homes and Sub-Market Rental Homes
- the Group will only invest in Market Rental Homes, Functional Homes and Sub-Market Rental Homes
- homes in respect of which the Counterparty is a Statutory Registered Provider, University, Reputable Private Landlord or Reputable Care Provider
- no home, or group of homes forming one contiguous, or largely contiguous, block of homes (for example a building containing multiple flats), will represent more than 20% of Gross Asset Value calculated at the time of investment. However, during such time as Gross Asset Value remains below £900 million, the maximum limit for up to two homes may exceed 20% but will not exceed 25% of Gross Asset Value (calculated at the time of investment) per Home in order to facilitate the ownership of certain larger homes during the Company's initial deployment period
- the aggregate maximum credit exposure to any Counterparty or Shared Owner, will not exceed 20% of Gross Asset Value, calculated at the time of investment. However during such time as Gross Asset Value remains below £900 million, the maximum credit exposure to up to two Counterparties and/or Shared Owners may exceed 20% but will not exceed 25% of Gross Asset Value (calculated at the time of investment) per Counterparty and/or Shared Owner in order to facilitate the ownership of certain larger residential assets during the Company's initial deployment period
- with respect to forward funded homes, the maximum exposure to an individual property developing entity will be limited to 20% of Gross Asset Value calculated at the time of investment. However, during such time as Gross Asset Value remains below £900 million, the maximum limit for up to two individual property developing entities may exceed 20% but will not exceed 25% of Gross Asset Value (calculated

at the time of investment) per individual property developing entity in order to facilitate the forward funding of homes during the Company's initial deployment period; and

- the Group will not undertake any direct development or speculative development.

The Group shall be permitted to acquire any property consisting of homes and a commercial element; provided that the Fund Manager is satisfied that such commercial element is ancillary to the primary function of such Home as a Shared Ownership Home, Market Rental Home, Functional Home or Sub-Market Rental Home.

The investment limits detailed above apply at the time of the acquisition of the relevant investment in the Portfolio. The Group will not be required to dispose of any investment or to rebalance its Portfolio as a result of a change in the respective valuations of its assets or merger of Counterparties.

### Joint ventures

The Group may acquire homes through joint-venture arrangements with Statutory Registered Providers pursuant to which the Group and the relevant Statutory Registered Provider will together participate in a joint venture vehicle that owns (directly or indirectly) the relevant Home.

Investments through such joint-ventures will be subject to the same investment restrictions and leverage policy, which shall be read to look through the joint venture vehicle and apply to the Group's partial (through the joint venture vehicle) economic ownership interest in the relevant Home.

### Use of leverage and gearing limits

The Group will seek to use leverage to enhance equity returns of the Portfolio. The level of borrowing will be determined by the Fund Manager based on the characteristics of the relevant property and asset class and the Fund Manager will seek to achieve a low cost of funds, whilst maintaining the flexibility in the underlying security requirements and the structure of both the Portfolio and the Group.

The Fund Manager intends to have indicative terms of any debt funding before completing an acquisition which will mitigate the risk of a funding mismatch arising. When considering any funding proposal, the Fund Manager will make use of its officers' experience, and those of its parent, TradeRisks Limited, in accessing long-term fixed rate and inflation-linked debt, which will most appropriately match debt against the cashflow profile of the investment opportunity. The Fund Manager intends to structure the debt by assessing the operational cashflows from the target asset and setting a Debt Service Coverage Ratio that, in combination with the counterparty credit quality and property security, gives efficient funding, which shall be of a credit strength

equivalent to investment grade based on published rating agency methodologies. As such the gearing strategy for the Group is more akin to long term project finance debt than to traditional commercial property debt.

Debt may be secured or unsecured. If secured, it will be secured at asset level, whether over a particular property or a holding entity for a particular property or series of properties (without recourse to the Company). The Fund Manager intends that all indebtedness will be incurred on a fully or partially amortising basis, to minimise the need to refinance on any final repayment date, with the exception of any working capital facilities raised at the level of the Company.

The Group will target an asset level aggregate level of borrowings of 50% of Gross Asset Value over the medium term. Aggregate Group borrowings will always be subject to an absolute maximum, calculated at the time of drawdown, of 67% of Gross Asset Value.

### Use of derivatives

The Fund Manager intends to match debt cashflows to those of the underlying assets and therefore does not expect to utilise derivatives. However, to the extent this is not possible, the Group may utilise derivatives for full or partial inflation or interest rate hedging or otherwise seek to mitigate the risk of inflation or interest rate movements. The Group will closely manage any derivatives, in particular with regard to liquidity and counterparty risks.

The Group will only use derivatives for risk management and not for speculative purposes.

### Cash management

Until the Group is fully invested and pending re-investment or distribution of cash receipts, the Group will invest in cash, cash equivalents, near cash instruments and money market instruments.

### REIT status

The Directors will at all times conduct the affairs of the Company so as to enable it to become and remain qualified as a REIT for the purposes of Part 12 of the CTA 2010 (and the regulations made thereunder).

### Amendments to and compliance with the Investment Policy

Material changes to the Investment Policy may only be made with the approval of Shareholders by way of ordinary resolution and (for so long as the Ordinary Shares are listed on the Official List) in accordance with the Listing Rules. Non-material changes to the Investment Policy must be approved by the Board, taking into account advice from the Fund Manager and external advisers where appropriate.

# Key Performance Indicators

Measure	Explanation	Relevance to Strategy	Result
Capital deployed	ReSI measures the rate at which it has deployed capital since IPO since this drives the timing of income production.	ReSI's strategy is to invest in high quality social housing assets; hence the total capital deployed into such assets reflects ReSI's ability to source suitable investments.	£240m deployed by 30 September 2019 with a further £60m committed for the shared ownership acquisition at Clapham Park (2018: £210m).
IFRS NAV per share	ReSI measures its IFRS Net Asset Value per share, consistent with its financial statements, with a target to achieve capital appreciation in line with inflation without reliance on gains from asset sales.	A higher IFRS NAV per share compared to ReSI's opening NAV of 98p per share immediately following IPO, reflects capital appreciation on its portfolio.	IFRS NAV of 108.6p per share (2018: 105.1p), including a £23.5m capital appreciation gain on investments since inception (2018: £14.8m).
Dividend per share	Targeting 3p per share in the period from IPO to 30 September 2018; 5p per share per annum thereafter, growing in line with inflation.	ReSI seeks to provide stable rental income to its investors through regular consistent dividend payments in line with its target.  Measuring dividend payments per share reflects ReSI's ability to meet this target, with performance constrained by available cash and the income generated from ReSI's assets.	In line with target: four equal dividends declared of 1.25p per share (declared in February, May, August and November 2019) totalling 5.0p per Ordinary Share (2018: 3.0p)
Ongoing charges ratio	Ongoing charges express the ratio of annualised ongoing expenses to Net Asset Value at the end of the year.	ReSI measures the ongoing charges ratio to demonstrate that the running costs of the Company are kept to a minimum without impacting on performance.  A lower ongoing charges ratio will improve ReSI's financial performance.	1.5% for the year to 30 September 2019 (2018: 1.5%), of which 1.0% relates to Fund Manager fees (2018: 1.0%) and the remainder being general and administrative expenses.  This is in line with our target of 1.5% which was revised upwards in the 2018 Annual Report to reflect the additional costs associated with operating ReSI Housing.



# Principal Risks and Uncertainties

The Board recognises that effective risk management is key to the Group's success and that a proactive approach is critical to ensuring the sustainable growth and resilience of the Group. The Board is responsible, in conjunction with the Fund Manager, for ensuring the maintenance of a sound system of internal control and risk management (including financial, operational and compliance controls) and for reviewing the overall effectiveness of systems in place.

The table below sets out the current identifiable and principal risks and uncertainties which the board are monitoring:

Risk	Risk Mitigation
<b>Company, Investment Strategy and Operations</b>	
ReSI may not meet its investment objective or return objective	<ul style="list-style-type: none"> <li>On-going information on investment activities provided by RCM to the Board</li> <li>Regular review of investment and return objectives</li> </ul>
ReSI may be unable to make acquisitions on its targeted timeline	<ul style="list-style-type: none"> <li>ReSI has a detailed Investment Policy that describes target assets and the process for acquiring such assets</li> <li>RCM has long-term relationships with leading UK Housing Associations and Local Authorities</li> <li>Registration of ReSI Housing as a Registered Provider expands the origination universe to include acquiring newly developed properties that are designated as affordable accommodation under planning requirements and unrestricted stock where ReSI can apply government grant to convert into Shared Ownership</li> <li>RCM has extended its origination and relationship network by bringing in additional experienced professionals with backgrounds working for housing associations, Local Authorities and property developers</li> </ul>
ReSI's due diligence ('DD') may not identify all risks and liabilities in respect of an acquisition	<ul style="list-style-type: none"> <li>RCM engages established law firms to carry out legal DD managed by in-house counsel</li> <li>Property DD carried out by reputable real estate surveyors and managed by in-house property experts</li> <li>Financial DD carried out by major accounting firms and managed by in-house experienced accountants</li> <li>RCM performs shadow credit ratings utilising published credit rating methodologies</li> <li>ReSI appointed Laven Partners to conduct an audit of its investment processes during the year</li> </ul>
<b>Real estate</b>	
Significant or material fall in the value of the property market	<ul style="list-style-type: none"> <li>The aim of ReSI is to hold the assets for the long term and generate inflation linked income</li> <li>ReSI does not intend to rely on realised revaluation gains to cover dividend payments, which it intends to cover from income once fully invested</li> <li>ReSI enters into long-term management agreements to ensure any fall in the property market should not result in significant impairment to the rental cashflows</li> <li>ReSI focuses on areas of the market with limited and ideally countercyclical exposure to the wider property market</li> </ul>
Retaining and procuring appropriate tenants	<ul style="list-style-type: none"> <li>RCM engages third parties to provide the day-to-day management of a home and letting and collection of underlying rent from residents or Shared Owners</li> <li>RCM only accepts void risk where there is a demonstrable strong demand or where the tenants are part owners of the properties (as exhibited by retirement, sub-market rental assets or Shared Ownership properties)</li> </ul>

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# Principal Risks and Uncertainties

continued

Risk	Risk Mitigation
<b>Real estate</b>	
Lack of demand for Shared Ownership	<ul style="list-style-type: none"> <li>• RCM focuses on areas with high house price to earnings multiples where it is very difficult for average earners to afford to buy homes on an outright basis or with Help to Buy</li> <li>• RCM's acquisition due diligence includes an assessment of affordability and local supply and demand dynamics to avoid areas where there is excess supply under development. Appraisal assumptions allow for falls in value and delays in sales</li> <li>• RCM engages experienced third parties to act as sales agent and closely monitors sales progress, including the level of unsold stock</li> </ul>
<b>Service providers</b>	
ReSI is dependent on the expertise of the RCM and TradeRisks and their key personnel to evaluate investment opportunities and to assist in the implementation of ReSI's investment objective and investment policy	<ul style="list-style-type: none"> <li>• ReSI places reliance on the independent Board of Directors who have strong relevant experience</li> <li>• RCM and TradeRisks' interests are aligned to those of ReSI's shareholders through a fee structure which pays 25% of Fund Manager fees in equity and provides for no transaction-specific fees</li> <li>• The directors of RCM (or persons connected to them) hold in aggregate 1,663,750 Ordinary Shares in ReSI and RCM holds 1,071,772 Ordinary Shares</li> </ul>
<b>Taxation</b>	
If ReSI fails to remain qualified as a REIT, its rental income and gains will be subject to UK corporation tax	<ul style="list-style-type: none"> <li>• ReSI intends to remain within the UK REIT regime and work within its investment objective and policy</li> <li>• The Directors will at all times conduct the affairs of ReSI so as to enable it to become and remain qualified as a REIT for the purposes of Part 12 of the CTA 2010</li> <li>• The Board would have oversight on any action that would result in ReSI failing to adhere to the UK REIT regime, and ReSI receives tax advice from professional advisers</li> </ul>
<b>Investment Management</b>	
Market and individual investment risks not analysed or detected in a timely fashion leading to investments with poor performance or a higher risk profile than stated within the investment policy	<ul style="list-style-type: none"> <li>• RCM rigorously analyses investment opportunities and undertakes comprehensive due diligence before acquisition</li> <li>• RCM does not receive a performance based fee and as such is not financially incentivised to target riskier higher yielding assets</li> <li>• RCM receives a management fee prior to deployment and so is not financially incentivised to purchase assets quickly regardless of the performance of such assets</li> </ul>

## Changes to principal risks during the year

During the year the Group's principal risks and uncertainties have been updated to include risks relating to the lack of demand for Shared Ownership, reflecting the completion of the Group's first Shared Ownership transaction.

# Going Concern and Viability Statement

## Going concern

The Board monitors the Company's ability to continue as a going concern. The following is a summary of the Director's assessment of the going concern status of the Group and Company, which should be read in conjunction with the viability statement.

The Directors have considered the Group's cash position, income and expense flows. In addition, as at 30 September 2019 the Group's net assets were £185.7m and the Group held cash and cash equivalents of £26.2m. Annualised net rental income for the year ended 30 September 2019 was £12.1m, which is expected to increase as the Group's Shared Ownership investments become fully income producing. The total ongoing Operating expenses (excluding finance costs, taxation and aborted acquisition costs) for the period ended 30 September 2019 were £2.9m. Therefore the Group has substantial Operating expenses cover.

The Group has exchanged contracts to acquire 132 new build apartments at Clapham Park for a total acquisition cost of £60m, including a £6m deposit paid to date. The acquisition is expected to complete in Q1 2020 and will be funded from existing cash resources, grant funding from the GLA and debt secured against the Shared Ownership portfolio.

Based on the above information, the Board has made an assessment and are satisfied that there are no material uncertainties in relation to the Group and Company's ability to continue in business for the foreseeable future, being at least 12 months from the date of approval of the financial statements, and therefore has adopted the going concern basis in preparation of the financial statements.

## Viability statement

In accordance with the UK Corporate Governance Code the Board has assessed the viability of the Group over a longer period than the 12 months required by the 'Going Concern' provision. The Board has conducted this review for the five years to September 2024. The Board considers that five years is the maximum period for which the degree of uncertainty relating to factors outside of the Board's control is low enough to make a reasonable expectation in respect of the Group's longer term viability.

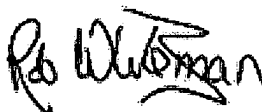
Five years was considered appropriate given the Company's long term investment objective. The Board has considered each of the principal risks and uncertainties set out above and the liquidity and solvency of the Company.

Having considered the relevant matters, the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the five year period of its assessment.

The Chairman's statement and Fund Manager's report present the positive long term investment case for acquiring high quality residential assets which also underpins the Group's viability for the period.

## Approval

The Strategic report was approved by the Board of Directors on 20 November 2019.

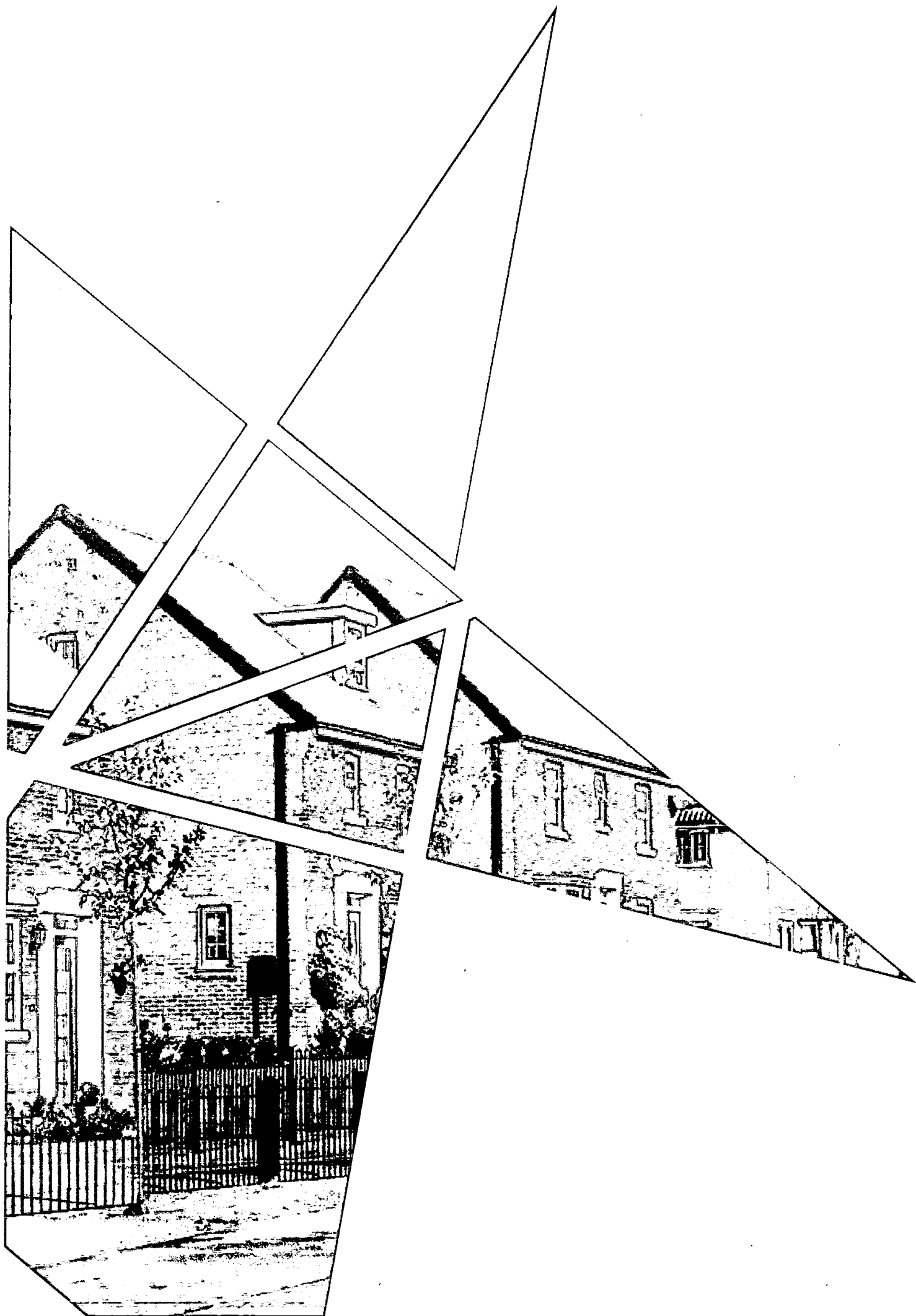


**Rob Whiteman**  
Chairman of the Board of Directors

20 November 2019

# Governance





# Board of Directors



**Rob Whiteman**  
**Non-executive Chairman**

## **Appointed**

9 June 2017

## **Skills, competence and experience**

- Significant knowledge of public service finances and reform and a strong background in public financial management and governance;
- Previously Rob was Chief executive of UK Border Agency and led the Improvement and Development Agency. Rob was Chief Executive of London Borough of Barking and Dagenham from 2005-2010 and has held various positions in London Borough of Lewisham from 1996- 2005, latterly as Director of Resources and Deputy Chief Executive;
- Educated at the University of Essex where he gained a BA (Hons) in Economics and Government.

## **Other roles**

- Chief Executive of the Chartered Institute of Public Finance & Accountancy (CIPFA);
- Chairman of East London Health & Care Partnership;
- Chairman of Barking & Dagenham College;
- Technical adviser to the International Federation of Accountants (IFAC) in New York.



**Robert Gray**  
**Non-Executive Director and  
Audit Committee Chairman**

## **Appointed**

9 June 2017

## **Skills, competence and experience**

- Extensive business experience, including experience in debt finance and capital markets;
- Robert has held roles at HSBC Markets Limited and HSBC Investment Bank in London working initially as Managing Director for Global Capital Markets and subsequently as Vice Chairman for Client Development. Robert was also Chairman, Debt Finance & Advisory at HSBC Bank plc. As Director and Chair of the Overseas Promotion Committee of TheCityUK Robert served as financial services sector advisor to the UK Minister for Trade & Investment.
- He was Chairman of the International Capital Market Association and Vice Chairman and Chairman of the Regulatory Policy Committee of the International Capital Market Association;
- Educated at Sherborne School and St. John's College, Cambridge University where he gained a MA (Hons) in History.

## **Other roles**

- Director and Chair of the Audit Committee of the Arab British Chamber of Commerce

## Appointed

9 June 2017

### Skills, competence and experience

- Strong operational leader with management experience and a track record in social infrastructure and housing;
- Previously John was a Partner and Head of Housing, Regeneration and Growth at Arcadis LLP, and was an executive director for Markets & Portfolio at Genesis Housing Association and Managing Director for Genesis Homes Ltd. In addition John has held various other roles including Director of Social Infrastructure and Housing at PricewaterhouseCoopers, Director of the Housing Corporation (now the Homes and Communities Agency), Property Director at Barclays Bank, Managing Director of HRC Ltd/Lehman Brothers and Head of the Specialist Property Division at the Bank of Ireland;
- Educated at the University of Liverpool and holds an MBA in Finance from Manchester Business School. John is a fellow of the R.I.C.S and also holds an IPF Investment Property Forum Diploma from the Cambridge University Land Institute.

### Other roles

- Executive Director of property investment at Orbit Group;
- Director of Places for People Leisure Partnerships.



**John Carleton**  
**Non-executive Director**

## Appointed

13 September 2018

### Skills, competence and experience

- Considerable experience in urban development, with over 20 years of experience in delivering strategies for planning, housing, environment and innovation;
- Mike is founding Director of Metro Dynamics, a specialised consultancy for city authorities. Mike plays a central role on many major city projects including the devolution deals in the West Midlands and North East which give more local responsibility for housing and infrastructure. He also provides support for the Metro Mayor in Liverpool and advises the Cambridge and Peterborough Independent Economic Review. Mike has held other roles including Chief Executive of New Economy Manchester, Senior Policy Adviser on social and economic development in the Prime Minister's Policy Unit and Policy Adviser to HM Treasury.

### Other roles

- Director Manchester Camerata;
- Trustee, the Tutor Trust.



**Mike Emmerich**  
**Non-executive Director**

# Directors' Report

The Directors present their report and accounts for the year ended 30 September 2019.

The Board is responsible for all aspects of the Company's affairs, including setting the parameters for monitoring the investment strategy and the review of investment performance and policy. The Board also has responsibility for all strategic policy issues, the timing, price and volume of any buybacks of Ordinary Shares, corporate governance matters and dividends.

Further information on the Board's role is provided in the Corporate Governance Report beginning on page 34, which forms part of the Directors' report.

## Results

The Group's profit for the year was £13.2m and the earnings per share were 7.7 pence.

The results for the year are shown in the financial statements. Commentary on the results, future developments and post balance sheet events can be found in the Strategic Report, Chairman's Statement and Investment Manager's Review.

## Investment Property

A summary of the Group's investment property portfolio is included on pages 5 to 9. A full portfolio listing can be made available on request.

## Dividend policy

The Company is targeting, on a fully invested and geared basis, a dividend yield of 5% per annum based on the issue price of £1 per Ordinary Share, which the Company then expects to increase broadly in line with inflation. It is the Company's intention to pay dividends to Shareholders on a quarterly basis and in accordance with the REIT Regime.

The Company has targeted a dividend of 5.0 pence per share for the year ended 30 September 2019. Over time, the Company expects its dividends to increase broadly in line with inflation, targeting a total return in excess of 8% per annum.

As a REIT, the Company will be required to meet a minimum distribution test for each accounting period that it is a REIT. This minimum distribution test requires the Company to distribute a minimum of 90% of its Property Rental Business income profits for each accounting period, as adjusted for tax purposes.

When the Company pays a dividend, that dividend will be a Property Income Distribution ('PID') to the extent necessary to satisfy the 90% distribution condition. If the dividend exceeds the amount required to satisfy that test, then depending on all the circumstances the REIT may determine that all or part of the balance is a Non-PID Dividend. Subject to certain exceptions, PIDs will be subject to withholding tax at the basic rate of income tax (currently 20%).

If the Company ceases to be a REIT, dividends paid by the Company may nevertheless be PIDs to the extent they are paid in respect of profits and gains of the Property Rental Business whilst the Company was within the REIT Regime.

## Dividends paid in the year ended 30 September 2019

In line with the Company's dividend policy, three interim dividends totalling 3.75 pence per Ordinary Share were paid during the year, of which 2.25 pence was paid as PIDs and 1.50 pence was paid as Non-PID.

The Board declared a fourth interim dividend in respect of the quarter to 30 September 2019 of 1.25 pence per Ordinary Share, which will be payable on 27 December 2019 to shareholders on the register at the close of business on 6 December 2019. The ex-dividend date is 5 December 2019 and 0.50 pence per Ordinary Share will be paid as a Property Income Distribution ('PID') and 0.75 pence per Ordinary Share will be paid as non-PID.

Including this interim dividend, the Company will have paid total dividends of 5.0 pence per Ordinary Share during the year, in line with its target dividends.

## Management – Fund Manager

ReSI Capital Management Limited has been engaged as the Company's alternative investment fund manager (the "Fund Manager"), in compliance with the provisions of the Alternative Investment Fund Managers Directive ("AIFMD"), pursuant to the Fund Management Agreement, to advise the Company and provide certain management services in respect of the Portfolio. ReSI Capital Management Limited is regulated by the Financial Conduct Authority. The Fund Manager is, for the purposes of the AIFMD and the rules of the FCA, a 'full scope' UK alternative investment fund manager with a Part 4A permission for managing AIFs, such as the Company.

The Fund Manager is appointed under a contract subject to twelve months' written notice with such notice not to expire prior to the fifth anniversary of first admission of the Ordinary Shares to trading on the London Stock Exchange.

The Fund Manager is entitled to remuneration calculated in respect of each quarter, based upon the Net Asset Value, at a rate equivalent to 1% (if under £250m), 0.9% (if over £250m), 0.8% (if over £500m) or 0.7% (if over £1bn). The Fund Management Fee shall be paid quarterly in advance, with 75% of the total Fund Management Fee payable in cash and 25% of the total Fund Management Fee (net of any applicable tax) payable in the form of Ordinary Shares.

The Fund Manager is also entitled to a debt arrangement fee in respect of debt arranged by the Fund Manager for ReSI or its subsidiaries. The debt arrangement fee is equal to 0.04% p.a. levied on the



notional amount outstanding of any bond or private placement financing. There is no debt arrangement fee payable in respect of any bank debt financing the Fund Manager may arrange for the Group.

### Appointment of the Fund Manager

The Board has discretion to monitor the performance of the Fund Manager and, from the date falling five years after entry into the Fund Management agreement, to appoint a replacement Fund Manager. Due to the recent launch of the Company and the Fund Manager's experience in the sector, the continuing appointment of the Fund Manager is considered by the Board to be in the best interests of shareholders as a whole.

### Depository

Thompson Taraz Depository Limited has been appointed as Depository to provide cash monitoring, safekeeping and asset verification and oversight functions as prescribed by the AIFMD. A Depository Statement is included in this Annual Report.

### Company Secretary

PraxisIFM Fund Services (UK) Limited has been appointed as the Company Secretary of the Company and provides company secretarial services and a registered office to the Company.

### Administrator

MGR Weston Kay LLP has been appointed as Administrator to the Company. The administration of the Company is delegated and in consultation with the AIFM and the Fund Manager, financial information of the Company is prepared by the Administrator and is reported to the Board.

### Share capital

As at 30 September 2019 the Company's issued share capital comprised 180,324,377 Ordinary Shares, each of 1p nominal value, including 9,304,729 Ordinary Shares held in Treasury. Treasury shares do not hold any voting rights. The Company's total voting rights, excluding treasury shares is 171,019,648. Each Ordinary Share held entitles the holder to one vote. All shares, excluding those held in Treasury, carry equal voting rights and there are no restrictions on those voting rights. Voting deadlines are stated in the Notice of Meeting and Form of Proxy and are in accordance with the Companies Act 2006.

No shares were issued during the year under review.

There are no restrictions on the transfer of Ordinary Shares, nor are there any limitations or special rights associated with the Ordinary Shares.

The forthcoming Annual General Meeting will consider the authority given to Directors to allot further shares in the capital of the Company under section 551 of the Companies Act 2006.

The authority to issue new shares granted at the AGM held on 29 January 2019 will expire at the conclusion of the forthcoming AGM.

The Board recommends that the Company be granted a new authority to issue up to a maximum of 17,101,964 Ordinary shares representing 10% of the Company's Ordinary Shares in issue, for cash at a price above prevailing Net Asset Value per share and to disapply pre-emption rights when issuing those Ordinary Shares. Resolutions to this effect will be put to shareholders at the AGM. The maximum number of Ordinary Shares which can be admitted to trading on the London Stock Exchange without the publication of a prospectus is 20% of the Ordinary Share Capital on a rolling previous 12 month basis at the time of admission of the shares. The Board does not have any immediate plans to issue shares under this authority.

### Discount management

The Board makes use of its share buyback powers as a means of correcting any imbalance between supply of and demand for the Ordinary Shares.

In deciding whether to make any such repurchases, including the timing, volume and price of such repurchases of Ordinary Shares, the Directors have regard to the Company's REIT status and what they believe to be in the best interests of Shareholders as a whole and in compliance with the Articles, the Listing Rules, Companies Act 2006 and all other applicable legal and regulatory requirements.

During the year ended 30 September 2019 the Company purchased 3,653,059 of its own Ordinary Shares for holding in treasury. The shares were repurchased for treasury to correct an imbalance between supply of and demand for the Company's Ordinary Shares that persisted at the time of the transaction. Since the year end no Ordinary Shares have been bought back and held in treasury. These shares were purchased at a discount to net asset value.

The timing, price and volume of any buybacks of Ordinary Shares will be at the discretion of the Directors and is subject to the working capital requirements of the Company and the Company having sufficient surplus cash resources available. Directors will only buyback shares at a discount to the then prevailing net asset value of the shares.

Under the Listing Rules, the maximum price (exclusive of expenses) which may be paid for an Ordinary Share must not be more than the higher of: (i) 5 per cent. above the average of the midmarket values of the Ordinary Shares for the five Business Days before the repurchase is made; or (ii) the higher of the price of the last independent trade and the highest current independent bid for Ordinary Shares.

# Directors' Report

continued

The authority for the Company to purchase its own shares granted by the Annual General Meeting held on 29 January 2019 will expire at the conclusion of the forthcoming Annual General Meeting.

The directors recommend that a new authority to purchase up to 14.99% of the Ordinary Shares in issue (subject to the condition that not more than 14.99% of the Ordinary Shares in issue, excluding Treasury Shares, at the date of the Annual General Meeting are purchased) is granted and a resolution to that effect will be put to the Annual General Meeting to be held on 15 January 2020.

Any Ordinary Shares purchased will either be cancelled or, if the directors so determine, held in Treasury.

## Treasury shares

The Company is permitted to hold Ordinary Shares acquired by way of market purchase in treasury, rather than having to cancel them. Such Ordinary Shares may be subsequently cancelled or sold for cash. Holding Ordinary Shares in treasury enables the Company to sell Ordinary Shares from treasury quickly and in a cost efficient manner, and provides the Company with additional flexibility in the management of its capital base.

Unless authorised by Shareholders, Ordinary Shares held in treasury will not be sold at less than Net Asset Value per Share unless they are first offered pro rata to existing Shareholders. The Company will not hold treasury shares in excess of 10% of the Ordinary Share capital of the Company from time to time.

## Appointment and Replacement of Directors

In accordance with the Company's Articles of Association, Directors may be appointed by the Board to fill a vacancy following which they will be elected by shareholders by ordinary resolution at an Annual General Meeting or General Meeting of the Company.

## Articles of Association

The Company's Articles of Association can only be amended by Special Resolution at a shareholders meeting.

## Continuation vote

The Directors are required to propose an ordinary resolution at the Annual General Meeting following the fifth anniversary from its initial public offering that the Company should continue as presently constituted and at every fifth Annual General Meeting thereafter.

In the event that a continuation resolution is not passed, the Directors would be required to formulate proposals for the voluntary liquidation, unitisation, reorganization or reconstruction of the Company for consideration by shareholders at a general meeting to be convened by the Board for a date not more than six months after the date of the meeting at which such continuation resolution was not passed.

## Significant shareholders

The Directors have been notified of as at 30 September 2019, the following shareholdings comprising 3% or more of the issued share capital (excluding Treasury Shares) of the Company:

Shareholder	Holding	%
Close Asset Management Limited	18,213,732	10.65
Schroders plc	16,648,405	9.73
CG Asset Management Limited	15,000,000	8.77
Standard Life Aberdeen plc	9,972,480	5.83
VT Gravis Funds ICVC	9,049,470	5.29
Premier Fund Managers Limited	8,688,419	5.08

Since the year end, the Company has been formally notified that the Close Asset Management Limited holding in the Company has increased to 18,818,332 Ordinary Shares and the CG Asset Management holding in the Company has decreased to 13,500,000 Ordinary Shares.

There are no other significant changes since the year end of which the Board is aware.

## Settlement of ordinary share transactions

Ordinary share transactions in the Company are settled by the CREST share settlement system.

## Anti-bribery and corruption

It is the Company's policy to conduct all of its business in an honest and ethical manner. The Company takes a zero-tolerance approach to bribery and corruption and is committed to acting professionally, fairly and with integrity in all its business dealings and relationships wherever it operates. The Company's policy and the procedures that implement it are designed to support that commitment.

## Environmental, social and governance ('ESG') matters

To fulfil our long term financial objectives it is essential that we incorporate environmental and social considerations into our business model. The Company always seeks to work with well-regarded partners to ensure that our investments are fit for purpose and maintained at a high standard in order to meet the needs of our lessees and occupiers as well as sustaining their value over the long term.

We perform detailed property due diligence on all of our acquisitions to minimise fire and other risks to our tenants and provide safe and secure accommodation. By supporting our development partners we aim to benefit local communities by increasing the provision of affordable housing.

Through ReSI Housing we are able to keep assets within the social housing regulatory environment, which emphasises good governance and financial viability.

The Company has no greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

The Company aims to quantify its social impact and has commissioned the Social Profit Calculator to assess the overall impact of ReSI's investment (see page 10).

## Employees

The Company has no employees and no share schemes. The Board's policy on diversity is contained in the Corporate Governance Report (see page 35).

## Social, community and human rights issues

The Company aims to deliver a positive impact on social, community and human rights issues through its investment in the UK Housing Sector. The Company's approach to measuring social impact is discussed on page 10.

## Modern slavery act 2015, Bribery Act 2010 and Criminal Finances Act 2017

The Directors are satisfied that, to the best of their knowledge, the Company's principal suppliers, as listed on page 31, comply with the provisions of Modern Slavery Act 2015 and maintain adequate safeguards in keeping with the provisions of the Bribery Act 2010 and Criminal Finances Act 2017.

## Annual General Meeting

The Annual General Meeting ('AGM') of the Company will be held on 15 January 2020 at 11 a.m. The Notice convening the AGM is contained in this Annual Report and can be found on the Company's website at <https://www.resi-reit.com>. The Directors consider that all of the resolutions to be proposed are in the best interests of the Company and it is their recommendation that shareholders support these proposals as they intend to do so in respect of their own shareholdings.

## Political Donations

No political donations were made during the year under review and no political donations will be paid during the forthcoming year.

## Outlook

The outlook for the Company is discussed in the Chairman's Statement on pages 11 to 13.

## Independent Auditor

BDO LLP have expressed their willingness to continue in office as Independent Auditor and a resolution to re-appoint them will be put to shareholders at the AGM.

## Disclosure of information to the Independent Auditor

Each of the Directors at the date of the approval of this report confirms that:

- (i) so far as the Directors are aware, there is no relevant audit information of which the Company's Independent Auditor are unaware; and
- (ii) the Directors have taken all steps that ought to have been taken as Directors to make themselves aware of any relevant information and to establish that the Company's Independent Auditor are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006. In accordance with Section 489 of the Companies Act 2006, a resolution to re-appoint BDO LLP as the Company's Independent Auditor will be put forward at the forthcoming Annual General Meeting.

## Regulatory Disclosures – Information to be disclosed in accordance with Listing Rule 9.8.4

The disclosures below are made in compliance with the requirements of Listing Rule 9.8.4.

9.8.4(1) The company has not capitalised any interest in the year under review.

9.8.4(2) The company published its Half Yearly Financial Report on 20 May 2019 which contained unaudited financial information.

9.8.4(4) The company has no incentive schemes in operation.

9.8.4(5) and (6) No director of the company has waived or agreed to waive any current or future emoluments from the company.

9.8.4(7), (8) and (9) The company has not allotted any equity securities during the year under review within the meaning of Listing Rule 9.8.4(7), (8) and (9).

9.8.4(10) During the year under review, there were no contracts of significance subsisting to which the company is a party and in which a director of the company is or was materially interested: or between the company and a controlling shareholder.

9.8.4(11) This provision is not applicable to the company.

9.8.4(12) and (13) During the year under review, there were no arrangements under which a shareholder has waived or agreed to waive any dividends or future dividends.

9.8.4(14) This provision is not applicable to the company.

By order of the Board



For and on behalf of  
PraxisIFM Fund Services (UK) Limited  
Company Secretary

20 November 2019

# Corporate Governance Statement

The Board is committed to high standards of corporate governance.

The Board of the Company has considered the principles and recommendations of the AIC Code by reference to the AIC Guide. The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company as an investment company. A copy of the AIC Code can be viewed on the AIC's website. An updated AIC code was published in February 2019, reflecting changes made in 2018. The 2019 AIC Code will be applicable to the Company for the year ending 30 September 2020.

The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates all applicable principles of the UK Corporate Governance Code), will provide more relevant information to Shareholders.

The Financial Reporting Council ("FRC"), the UK's independent regulator for corporate reporting and governance responsible for the UK Corporate Governance Code, has endorsed the AIC Code and the AIC Guide. The terms of the FRC's endorsement mean that AIC members who report against the AIC Code and the AIC Guide meet fully their obligations under the UK Corporate Governance Code and the related disclosure requirements contained in the Listing Rules.

From Admission, the Company has complied with the AIC Code of Corporate Governance, which complements the UK Corporate Governance Code and provides a framework of best practice for listed investment companies.

The UK Corporate Governance Code includes provisions relating to: the role of the chief executive; executive Directors' remuneration; and the need for an internal audit function. For the reasons set out in the AIC Guide, 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 Company has a robust corporate governance framework with oversight provided by a highly experienced, fully independent Board. The Board is currently composed of four non-executive Directors who are collectively responsible for determining the Investment Policy and strategy, and who have overall responsibility for the Company's activities. A list of Directors is shown on pages 28 and 29.

## The Board of Directors Composition

At the date of this report, the Board consists of four non-executive Directors including the Chairman. All the Directors have served during the entire year.

The Board believes that during the year ended 30 September 2019 its composition was appropriate for an investment company of the Company's nature and size. All of the Directors are independent of the Fund Manager. All of the Directors are able to allocate sufficient time to the Company to discharge their responsibilities effectively.

The Directors have a broad range of relevant experience to meet the Company's requirements and their biographies are shown in the Board of Directors section of this Annual Report.

The Board recognises the benefits to the Company of having longer serving Directors together with progressive refreshment of the Board. The Board does not believe that length of service in itself necessarily disqualifies a Director from seeking reappointment but, when making a recommendation, the Board will take into account the requirements of the AIC Code. The Board has adopted corporate governance best practice and has a succession plan in place. No Director of the Company has served for nine years or more and all directors remain independent of the Company's Fund Manager.

The Board has formulated a succession plan which promotes regular refreshment and diversity, whilst maintaining stability and continuity of skills and knowledge on the Board. In accordance with the Company's Articles of Association, Directors may be appointed by the Company by ordinary resolution or by the Board. If appointed by the Board, a Director shall hold office only until the next annual general meeting and shall not be taken into account in determining the number of Directors who are to retire by rotation. One third of the Board retired by rotation and were subject to re-election at the Company's Annual General Meeting on 29 January 2019. However, in line with best practice, all the Directors have agreed to retire and stand for re-election on a voluntary basis at the Annual General Meeting in January 2020.

The Directors have appointment letters which do not provide for any specific term. Copies of the Directors' appointment letters are available on request from the Company Secretary. Upon joining the Board, any new Directors receive an induction and relevant training is available to Directors on an ongoing basis.

A policy of insurance against Directors' and officers' liabilities is maintained by the Company.

## Audit Committee

The Board delegates certain responsibilities and functions to the Audit Committee as set out in its written terms of reference. The Audit Committee is chaired by Robert Gray and consists of all the Directors. The Committee meets at least twice a year to review the interim and annual financial statements. The Committee also reviews the scope and results of the external audit, its cost effectiveness and the independence and objectivity of the external auditors, including the provision of non-audit services. A report of the Audit Committee is included in this Annual Report as set out on pages 38 and 39.

## Other Committees

The Board additionally fulfils the responsibilities of the Nomination Committee and Remuneration Committee. It has not been considered necessary to establish separate nomination or remuneration committees given the size of the Board and the size and nature of the Company.

In addition, the Board as a whole fulfils the functions of a Management Engagement Committee to review the actions and judgements of management in relation to the interim and annual financial statements and the Company's compliance with statutory and regulatory matters. In addition, in this capacity, the Board reviews the terms of the Fund Management Agreement and examines the effectiveness of the Company's internal control systems and the performance of the Fund Manager, Depositary, Administrator, Company Secretary and the Registrar.

## Meeting attendance

Directors	Quarterly Board	Audit Committee
Rob Whiteman	4	2
Robert Gray	4	2
John Carleton*	3	1
Mike Emmerich	4	2

\*Whilst John Carleton was unable to attend one Board meeting and one Audit Committee meeting (held on the same day) due to other commitments, the Board and Fund Manager regard his experience and knowledge as invaluable both within and outside meetings and are strongly recommending that shareholders vote in favour of his re-election.

There were also a number of other Board and committee meetings to deal with administrative matters and approval of documentation.

## Board diversity

The Board considers diversity and the Company's policy is that the Board should have an appropriate level of diversity in the boardroom, taking into account relevant skills, gender, social and ethnic backgrounds, cognitive and personal strengths. Consideration is given to the recommendations of the AIC Code and the Company supports the recommendations of the Hampton-Alexander Review.

The Board appraises its collective set of cognitive and personal strengths, independence and diversity on annual basis, and especially during the recruitment process, so as to ensure it is aligned with the Company's strategic priorities. The Board is satisfied with its current composition. However, should the strategic priorities change, the Board will review and adjust its composition.

## Performance appraisal

A formal annual performance appraisal process is performed on the Board, the committees, the individual Directors and the Company's main service providers.

A programme consisting of open and closed ended questions was used as the basis for the appraisal. The results were reviewed by the Chairman and discussed with the Board. A separate appraisal of the Chairman has been carried out by the other members of the Board and the results reported back to the Chairman. The results of the performance evaluation were positive and demonstrated that the Directors showed the necessary commitment and expertise for the fulfilment of their duties.

The Board has the discretion to monitor the performance of the Fund Manager and believes the continuing appointment of the Fund Manager to be in the best interests of shareholders as a whole (see page 31).

## Internal control

The AIC Code requires the Board to review the effectiveness of the Company's system of internal controls. The Board recognises its ultimate responsibility for the Company's system of internal controls and for monitoring its effectiveness. The system of internal controls is designed to manage rather than eliminate the risk of failure to achieve business objectives. It can provide only reasonable assurance against material misstatement or loss. The Board has undertaken a review of the Company's internal controls framework. The Board believes that the existing arrangements represent an appropriate framework to meet the internal control requirements. By these procedures the Directors have kept under review the effectiveness of the internal control system throughout the year and up to the date of this report.

## Financial aspects of internal control

The Directors are responsible for the internal financial control systems of the Company and for reviewing their effectiveness. These aim to ensure the maintenance of proper accounting records, the reliability of the financial information upon which business decisions are made and which is used for publication and that the assets of the Company are safeguarded. As stated above, the Board has contractually delegated to external agencies the services the Company requires, but it is fully informed of the internal control framework established by the AIFM,

# Corporate Governance Statement

continued

the Fund Manager, the Administrator and the Company's Depositary to provide reasonable assurance on the effectiveness of internal financial controls.

The key procedures include review of management accounts, monitoring of performance at quarterly Board meetings, segregation of the administrative function from investment management, maintenance of appropriate insurance and adherence to physical and computer security procedures.

The Statement of Directors' Responsibilities in respect of the accounts is on page 42 and a Statement of Going Concern is on page 25. The Report of the Independent Auditor is on pages 43 to 47.

## Other aspects of internal control

The Board holds quarterly meetings, plus additional meetings as required. Between these meetings there is regular contact with the Fund Manager and other service providers.

The Board has agreed policies on key operational issues. The Company's key service providers report to the Board on operational and compliance issues. The Fund Manager and the Depositary provide reports, which are reviewed by the Board.

The Administrator prepares management accounts, which enable the Board to assess the financial position of the Company. Additional ad hoc reports are received as required and Directors have access at all times to the advice and services of the Corporate Company Secretary, which is responsible to the Board for ensuring that Board procedures are followed.

This contact with the key service providers enables the Board to monitor the Company's progress towards its objectives and encompasses an analysis of the risks involved.

The effectiveness of the Company's risk management and internal controls systems is monitored and a formal review has been completed. There are no significant findings to report from the review.

The Board meet formally at least quarterly with additional ad hoc calls when appropriate. A typical agenda of a formal Board meeting includes a review of the financial and portfolio performance in that period, distributable income and dividend yield compared to forecast, an update regarding the investment pipeline, statutory and regulatory matters and governance obligations. The Directors are independent of the Fund Manager. The Board review investment activity and performance and exercise appropriate control and supervision to ensure acquisitions are made in accordance with agreed investment parameters. The Fund Manager has been given responsibility for the day-to-day management of the Company's assets in accordance with the Investment Policy subject to the control and directions of the Board.

## Matters reserved for the Board and delegated authorities

To retain control of key decisions and ensure there is a clear division of responsibilities between the running of the Board and the running of the business, the Board has identified 'reserved matters' that only it can approve. The Board has delegated a number of responsibilities and authorities to the Fund Manager. These responsibilities include the level of borrowing, which is based on the characteristics of the relevant property and asset class and identifying new investment opportunities for the Company, performing due diligence in relation to potential investments, approving and executing such investments and monitoring existing investments. The Fund Manager presents potential transactions to the Board at regular Board meetings. The Board and the Committee receive sufficient, reliable and timely information in advance of meetings and are provided with or given access to all necessary resources and expertise to enable them to fulfil their responsibilities and undertake their duties in an effective manner.

## Principal risks

The Directors confirm that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. The principal risks and how they are being managed is set out in the Strategic Report.

## Annual General Meeting

At least twenty-one days' notice shall be given to all the members and to the auditors of an Annual General Meeting. All other general meetings shall also be convened by not less than twenty-one days' notice to all those members and to the auditors unless the Company offers members an electronic voting facility and a special resolution reducing the period of notice to not less than fourteen days prior to the general meeting, in which case a general meeting may be convened by not less than fourteen days' notice in writing. A special resolution will be proposed at the Annual General Meeting to reduce the period of notice for general meetings, other than the Annual General Meeting, to not less than fourteen days.

## Shareholder relations

The Company encourages all shareholders to attend the Annual General Meeting and seeks to provide a minimum of twenty working days' notice of that meeting. The Notice of Meeting sets out the business of the AGM and any item not of an entirely routine nature is explained in the Directors' Report. Separate resolutions are proposed for each substantive issue. The Fund Manager has a programme of meetings with shareholders and reports back to the Board on its findings. The Chairman and the Board welcome direct feedback from shareholders.

## Exercise of voting powers and stewardship code

The principles of best practice of the Stewardship Code are not applicable to the Company's operations, being a REIT that does not hold the shares of other companies.

## Social and environmental policy

The Company has no staff, premises, manufacturing or other operations. Any emissions from the Company's property are the responsibility of the tenant under the principle of operational control.

The Group has no greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

# Report of the Audit Committee

## Role of the Audit Committee

The AIC Code of Corporate Governance (the "Code") recommends that Boards should establish audit committees consisting of at least three, or in the case of smaller companies, two independent non-executive directors. The Board is required to satisfy itself that the audit committee has recent and relevant experience. The main role and responsibilities of the audit committee should be set out in written terms of reference covering certain matters described in the AIC Corporate Governance Code. The terms of reference of the Audit Committee can be found on the Company's website at <https://www.resi-reit.com/>

The Audit Committee meets formally at least twice a year for the purpose, amongst other things, of considering the appointment, independence and objectivity, and remuneration of the auditor and to review the annual accounts and half-yearly financial report. The Audit Committee also reviews the Company's internal financial controls and its internal control and risk management systems.

## Non-Audit Services

Where non-audit services are provided by the auditor, full consideration of the financial and other implications on the independence of the auditor arising from any such engagement are considered before proceeding. The Audit Committee has considered the non-audit work of the auditor during the year ended 30 September 2019 and does not consider that this compromises its independence.

BDO LLP were paid fees of £30,000 in respect of non-audit services in the year ended 30 September 2019. These services were in respect of the interim review of the Half-yearly Report and this service is typically performed by a company's auditor. The independence of the Auditor was considered prior to the provision of this service.

## Composition

All of the Directors of the Company are members of the Audit Committee. The Audit Committee has formal written terms of reference and copies of these are available on request from the Company Secretary and can be downloaded from the Company's website at <https://www.resi-reit.com/>. The Audit Committee as a whole has recent and relevant financial experience. The Audit Committee has considered the need for an internal audit function and considers that this is not appropriate given the nature and circumstances of the Company. The Audit Committee keeps the needs for an internal function under periodic review. The chairman of the Company is a member of the Audit Committee. The Board and the Audit Committee believe that this is appropriate as he has recent and relevant financial experience and he is independent.

## Meetings

There have been two Audit Committee meetings in the year ended 30 September 2019. Attendance is included in the corporate governance statement.

## Financial statements and significant accounting matters

The Audit Committee considered the following significant accounting issues in relation to the Company's Financial Statements for the year ended 30 September 2019:

### Investment property valuation

The valuation of investment property is the most material matter in the production of the financial statements. Savills Advisory Services Limited has been appointed to value the Company's property investments in accordance with the RICS requirements on a quarterly basis. The Audit Committee reviewed a copy of the valuation once it had been completed and has received a presentation from the valuer. Investment properties are valued at their fair value in accordance with IFRS 13 which recognises a variety of fair value inputs depending upon the nature of the investment. The Audit Committee has reviewed the assumptions underlying the property valuations and concluded that the valuation at the Company's year end is appropriate.

### Revenue recognition

There is a risk that the Group's rental income may not be accounted for correctly in accordance with accounting standards. The Audit Committee has reviewed the Company's procedures in place for revenue recognition and has concluded that revenue has been appropriately recognised.

## Conclusion with respect to the Annual Report and financial statements

The Audit Committee has concluded that the Annual Report for the year ended 30 September 2019, taken as a whole, is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company's business model, strategy and performance. The Audit Committee has reported its conclusions to the Board of Directors. The Audit Committee reached this conclusion through a process of review of the document and enquiries to the various parties involved in the production of the annual report.

## Audit tenure

BDO LLP has been appointed as the Company's auditor since the Company's launch, following a competitive process and review of the Auditor's credentials. The appointment of the external auditor is reviewed annually by the Audit Committee and the Board and is subject to approval by Shareholders. In accordance with the FRC guidance, the audit will be put out to tender within ten years of the initial appointment of BDO LLP.



## Effectiveness of external audit

The Audit Committee is responsible for reviewing the effectiveness of the external audit process. The Audit Committee received a presentation of the audit plan from the external auditor prior to the commencement of the audit and a presentation of the results of the audit following completion of the main audit testing. The Audit Committee performed a review of the external auditor following the presentation of the results of the audit. The review included a discussion of the audit process and the ability of the external auditor to fulfil its role. Following the above review, the Audit Committee has agreed that the re-appointment of the Auditors should be recommended to the Board and the Shareholders of the Company.

## Provision of non-audit services

The Audit Committee has put a policy in place on the supply of any non-audit services provided by the external auditor. Such services are considered on a case-by-case basis and may only be provided to the Company if the provision of such services is at a reasonable and competitive cost and does not constitute a conflict of interest or potential conflict of interest which would prevent the auditor from remaining objective and independent.

**Robert Gray**  
**Chairman of the Audit Committee**  
20 November 2019

# Directors' Remuneration Implementation Report

This report has been prepared in accordance with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. An ordinary resolution for the approval of this report will be put forward at the forthcoming Annual General Meeting.

## Remuneration Policy

The provisions of the policy which was approved at the AGM on 29 January 2019 have continued to apply. A copy of the policy is included in the Company's Annual Report for the period from 12 July 2017 to 30 September 2018.

The Directors' Remuneration Policy was last put forward at the Annual General Meeting held on 29 January 2019. The resolution was passed with proxies representing 99.99% of the shares voted being in favour of the resolution. The Directors' Remuneration Policy will next be put forward for approval at the Annual General Meeting to be held in 2022.

## Directors' Remuneration Implementation Report

The Directors' Remuneration Implementation Report is put forward for approval by shareholders on an annual basis. The result of the shareholder resolution on the Implementation Report is non-binding on the Company, although it gives shareholders an opportunity to express their views, which will be taken into account by the Board.

The law requires the Company's auditor to audit certain disclosures provided in the Directors' Remuneration Implementation Report. Where disclosures are audited they are indicated as such. The auditor's opinion is on page 46.

## Remuneration

The Company currently has four non-executive Directors.

Directors are entitled to receive a fee linked to the Net Asset Value of the Company in respect of their position as a director of the Company. Fees are currently payable at the rates set out in the remuneration policy.

The Board believes that these fees appropriately reflect prevailing market rates for the Company's complexity and size, and will also enable the Company to attract appropriately experienced additional Directors in the future.

The Board reviews the fees payable to the Directors on an annual basis.

## Directors' service contracts

The Directors do not have service contracts with the Company. The Directors are not entitled to compensation on loss of office. The Directors have appointment letters which do not provide for any

specific term but are subject to re-election by shareholders at a maximum interval of three years. However, in line with best practice, all the Directors have agreed to retire and stand for re-election on a voluntary basis at the Annual General Meeting in January 2020.

There are no restrictions on transfers of the Company's shares held by the Directors or any special rights attached to such shares.

## Director search and selection fees

No Director search and selection fees were incurred during the year ended 30 September 2019.

## Directors' emoluments for the year ended 30 September 2019 (audited)

The Directors who served during the year received the following remuneration for qualifying services.

	Fees from 1 October 2018 to 30 September 2019 £000s	Fees from 12 July 2017 to 30 September 2018 £000s
Robert Whiteman	50	52
Robert Blackburn Gray	35	43
John Carleton	35	43
Mike Emmerich*	35	2
Rt Hon Baroness Dean of Thornton-le-Fylde**	–	47
	155	187

\*Appointed on 13 September 2018

\*\*Ceased to be a director on 14 March 2018

There are no other taxable benefits payable by the Company other than certain expenses which may be deemed to be taxable. None of the above fees was paid to third parties.

A non-binding ordinary resolution to approve the Directors' Remuneration Implementation Report contained in the Annual Report for the period ended 30 September 2018 was put forward at the Annual General Meeting held on 29 January 2019. The resolution was passed with proxies representing 100% of the shares voted being in favour of the resolution.

## Relative importance of spend on pay

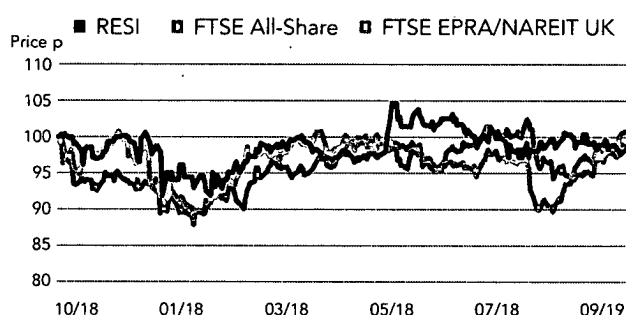
The following table sets out the total level of Directors' remuneration compared to Net Property Income, Directors' fees, Operating expenses, and Dividends paid and payable to shareholders.

	2019 £000s	2018 £000s
Net Property Income	12,059	5,699
Directors' fees	155	187
Operating expenses	3,100	3,350
Dividends paid and payable to shareholders	8,551	5,286

## Performance

The following chart shows the performance of the Company's share price by comparison to the principal relevant indices. The Board believes this Index is the most representative comparator for the Company, given the Company's investment objective.

### IPO TSR Performance



Source: Jefferies

## Directors' holdings (Audited)

There are no requirements pursuant to the Company's Articles of Association for the Directors to own shares in the Company. The Directors' beneficial shareholdings are detailed below:

	2019	2018
Robert Whiteman	5,000	5,000
Robert Blackburn Gray	75,000	75,000
John Carleton	4,850*	5,000
Mike Emmerich	–	–

\*restated from previously reported position of 5,000.

The shareholdings of the Directors are not significant and therefore do not compromise their independence as non-executive Directors.

## Statement

On behalf of the Board and in accordance with Part 2 of Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, I confirm that the above Report on Remuneration Policy and Remuneration Implementation summarises, as applicable, for the financial year ended 30 September 2019.

- the major decisions on Directors' remuneration;
- any substantial changes relating to Directors' remuneration made during the financial year ended 30 September 2019; and
- the context in which the changes occurred and decisions have been taken.

Robert Whiteman  
Chairman of the Board of Directors

20 November 2019

# Directors' Responsibilities

## Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare Group and parent Company financial statements for each financial year. The Group financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and the Company financial statements have been prepared in accordance with Financial Reporting Standard 100 Application of Financial Reporting Requirements ("FRS 100") and Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"), subject to any material departures disclosed and explained in the Company financial statements; and United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the Group's and Company's profit or loss for that period.

In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable, relevant, reliable and prudent
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU
- for the parent Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that its financial statements comply with the Companies Act 2006 and as regards the Group financial statements, Article 4 of the IAS Regulation.

They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have

general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Implementation Report and Corporate Governance Statement that complies with that law and those regulations. These can be found on pages 14, 30, 40 and 34 respectively.

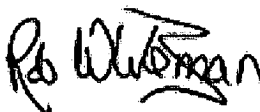
The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors are responsible for ensuring that the Annual report and accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group and Company's performance, business model and strategy.

## Directors' responsibility statement

We confirm that to the best of our knowledge:

- the financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and Article 4 of the IAS Regulation and, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation as a whole
- the Strategic Report includes a fair review of the development and performance of the business and the financial position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company's performance, business model and strategy.



For and on behalf of the Board

**Rob Whiteman**  
Chairman

20 November 2019

# Independent auditor's report

to the members of Residential Secure Income plc

## Opinion

We have audited the financial statements of Residential Secure Income plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 30 September 2019 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated statement of Cash Flows, the Consolidated Statement of Changes in Equity, the Company Statement of Financial Position, the Company Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied preparing the Group financial statements is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union. The financial reporting framework that has been applied in preparing the Parent Company financial statements is applicable law and United Kingdom Accounting Standards *100 Application of Financial Reporting Requirements and Financial Reporting Standard 101 Reduced Disclosure Framework* (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 September 2019 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Accounting Standards; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on pages 23 and 24 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 36 in the annual report 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 directors' statement set out on page 25 in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Group and the Parent Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 25 in the annual report 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.

# Independent auditor's report

to the members of Residential Secure Income plc continued

## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. This matter 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 this matter.

Key audit matter	How we addressed the key audit matter in the audit
<b>Valuation of investment properties</b> Refer to page 38 (Report of the Audit Committee), page 58 (significant accounting judgements and estimates) and notes 2 and 16 to the financial statements.  Investment properties are held at fair value in the Group's financial statements. The valuation of the Group's investment property is the key component of net asset value and underpins the Group's result for the year.  The valuation of investment property requires significant judgement and estimates by management and the Independent Valuer. It is therefore considered a key audit matter due to the subjective nature of certain assumptions inherent in each valuation such as capitalisation yields and estimated vacant possession value. There is also a risk that management may influence the significant judgements and estimates in respect of property valuations in order to achieve performance targets to meet market expectations.	<b>Experience of Valuer and relevance of its work</b> We read the Valuer's report and agreed that the approaches used were consistent with the requirements of IFRSs as adopted by the European Union. We assessed the Valuer's competence and capabilities and read their terms of engagement with the Group, determining that there were no matters that affected their independence and objectivity or imposed scope limitations upon them.  <b>Data provided to the Valuer</b> We checked the data provided to the Valuer by management and found that it was consistent with the information we audited. This data included inputs such as current rent and lease term, which we have agreed on a sample basis to executed lease agreements as part of our audit work.  <b>Assumptions and estimates used by the Valuer</b> We met with the Valuer and gained an understanding of the valuation methods and assumptions used. We considered the assumptions utilised by the Valuer within the valuation and benchmarked the valuation to our expectations developed using independently obtained data in relation to capitalisation yields and comparable market transactions.  <b>Key observation</b> Based on the procedures performed, we noted no exceptions and found the estimates and assumptions used appropriate in the context of the Group's property portfolio and reflected the circumstances of the market at the year end.

## Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on the audit and in forming our audit opinion. Materiality is assessed on both quantitative and qualitative grounds.

### Materiality

*The magnitude of an omission or misstatement that, individually or in the aggregate could reasonably be expected to influence the economic decisions of the users of the financial statements.*

We determined that total assets would be the most appropriate basis for determining overall materiality as we consider it to be one of the principal considerations for members of the company in assessing the financial performance of the Group. We determined materiality for the Group financial statements as a whole to be £3,200,000 (2018 – £2,600,000), which was set at 1% of Group total assets. This provides a basis for determining the nature and extent of our risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature and extent of further audit procedures.

We determined that for other account balances, classes of transactions and disclosures that impact adjusted earnings (as defined in note 14 of the financial statements) a misstatement of less than materiality for the financial statements as a whole could influence the economic decisions of users. We concluded that a specific materiality for these areas should be £230,000 (2018 – £125,000), which was set at 5% of adjusted earnings. Adjusted earnings excludes the impact of the net surplus on revaluation of investment properties.

We determined that the same asset measure as the Group and the same specific materiality as the Group were appropriate for the Parent Company, and the materiality and specific materiality applied were £2,180,000 (2018 – £1,218,000) and £230,000 (2018 – £125,000) respectively.

### Performance materiality

*The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.*

On the basis of our risk assessment together with the Group's overall control environment, and being an established client, our judgement was that performance materiality should be 75% (2018 – 50%) of materiality. As such, overall performance materiality was set at £2,400,000 (2018 – £1,300,000) and £172,500 (2018 – £62,500) for specific performance materiality.

We determined that the same measures as the Group were appropriate for the Parent Company, and the performance materiality and specific performance materiality applied were £1,635,000 (2018 – £609,000) and £172,500 (2018 – £62,500) respectively.

### Reporting threshold

*An amount below which identified misstatements are considered as being clearly trivial.*

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £25,000 for all items. We also agreed to report on any other differences that, in our view, warranted reporting on qualitative grounds.

We determined that the same measure as the Group was appropriate for the Parent Company, and the reporting threshold and specific report threshold applied was £25,000.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in the light of other relevant qualitative considerations.

## An overview of the scope of our audit

Our audit of the Group was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, applicable legal and regulatory framework and the industry in which it operates, and assessing the risks of material misstatement at the Group level. This included consideration of the risk that the Group was acting contrary to applicable laws and regulations, including fraud.

We designed our audit by determining materiality and assessing the risk of material misstatements in the financial statements. In particular, we looked at where the Directors make subjective judgements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud. Our work included a reviewing journals posted for evidence of the override of controls. We also reviewed the information supplied to the Group's external valuer for evidence of error.

We gained an understanding of the legal and regulatory framework applicable to the group and the industry in which it operates, and considered the risk of acts by the group which were contrary to applicable laws and regulations. We focused on laws and regulations that could give rise to a material misstatement in the Group and Parent company financial statements, including, but not limited to, the Companies Act 2006, the UK Listing Rules, the REIT regime requirement and legislation relevant to the rental of properties. Our work included, but was not limited to, review of correspondence with

# Independent auditor's report

to the members of Residential Secure Income plc continued

the Group's advisors, enquiries of management and agreement of the financial statement disclosures to underlying supporting documentation.

The Group operates solely in the United Kingdom and through one segment, investment property. The Group audit team audits each of the four significant components of the Group using materiality calculated on a similar basis to the Group. The Group audit team performed all the work necessary to issue the Group and Parent Company audit opinions, including undertaking all of the audit work on the key audit matters.

We consider that the audit procedures we planned and performed in accordance with ISAs (UK) have provided us with reasonable assurance that irregularities, including fraud, would have been detected to the extent that they could have resulted in material misstatements in the financial statements. Our audit was not designed to identify misstatements or other irregularities that would not be considered to be material to the financial statements.

## Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report set out on pages 1 to 42, and includes the Strategic report and the Corporate Governance Statement, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable set out on page 38 the statement given by the directors that they consider the annual report and financial statements taken as

a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or

- Audit committee reporting set out on pages 38 and 39 the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- Directors' statement of compliance with the UK Corporate Governance Code set out on page 34 the parts of the directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

## Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

## Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or



- we have not received all the information and explanations we require for our audit.

## Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 42, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed by the Directors on 20 September 2017 to audit the financial statements for the period ended 11 July 2017 and subsequent financial periods. The period of total uninterrupted engagement is 3 years, being the period ended 11 July 2017 and the years ending 30 September 2018 and 30 September 2019.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and the Parent Company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

## Use of our report

This report is made solely to the Parent Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Parent 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 Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

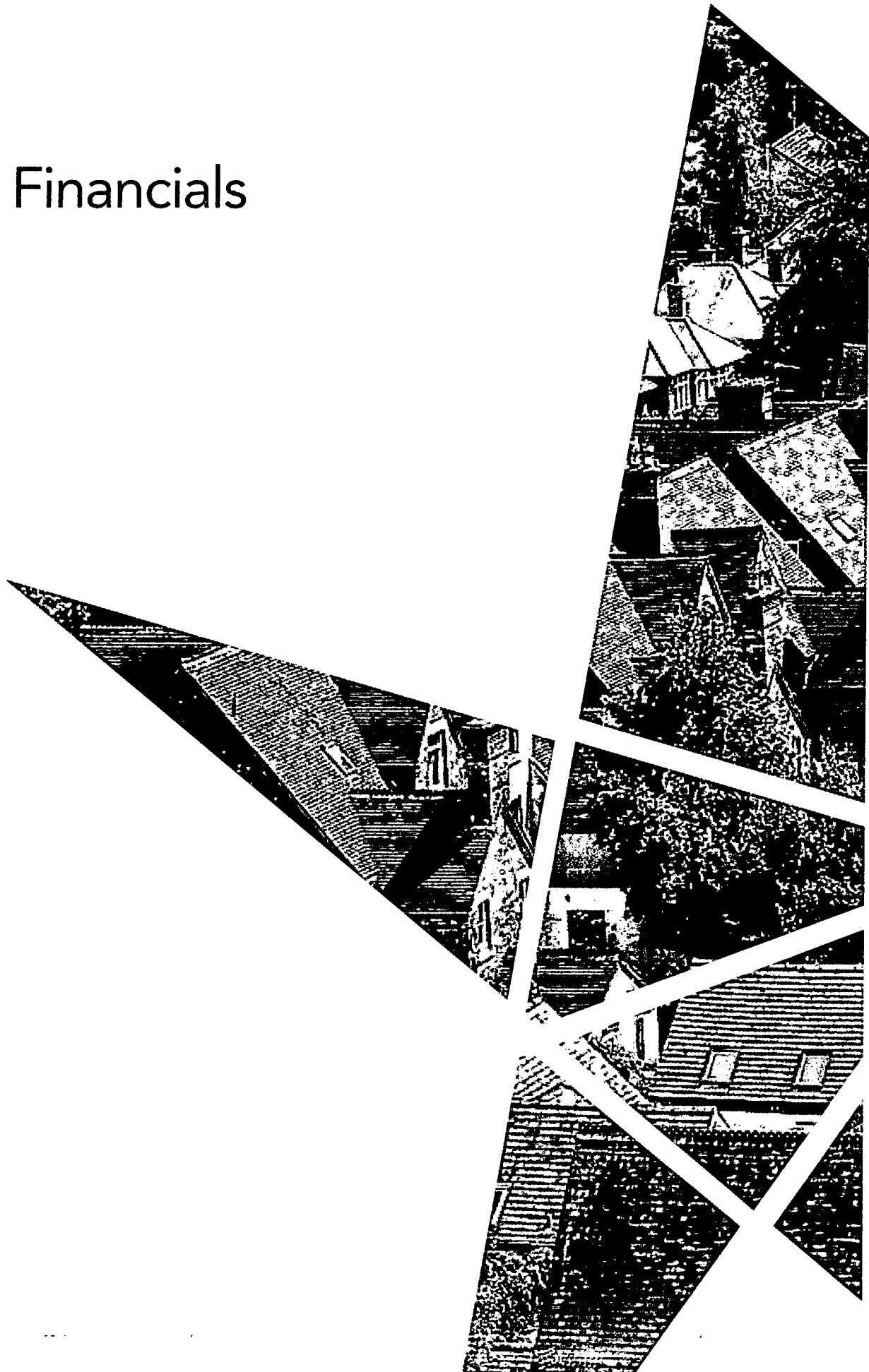
**BDO LLP**

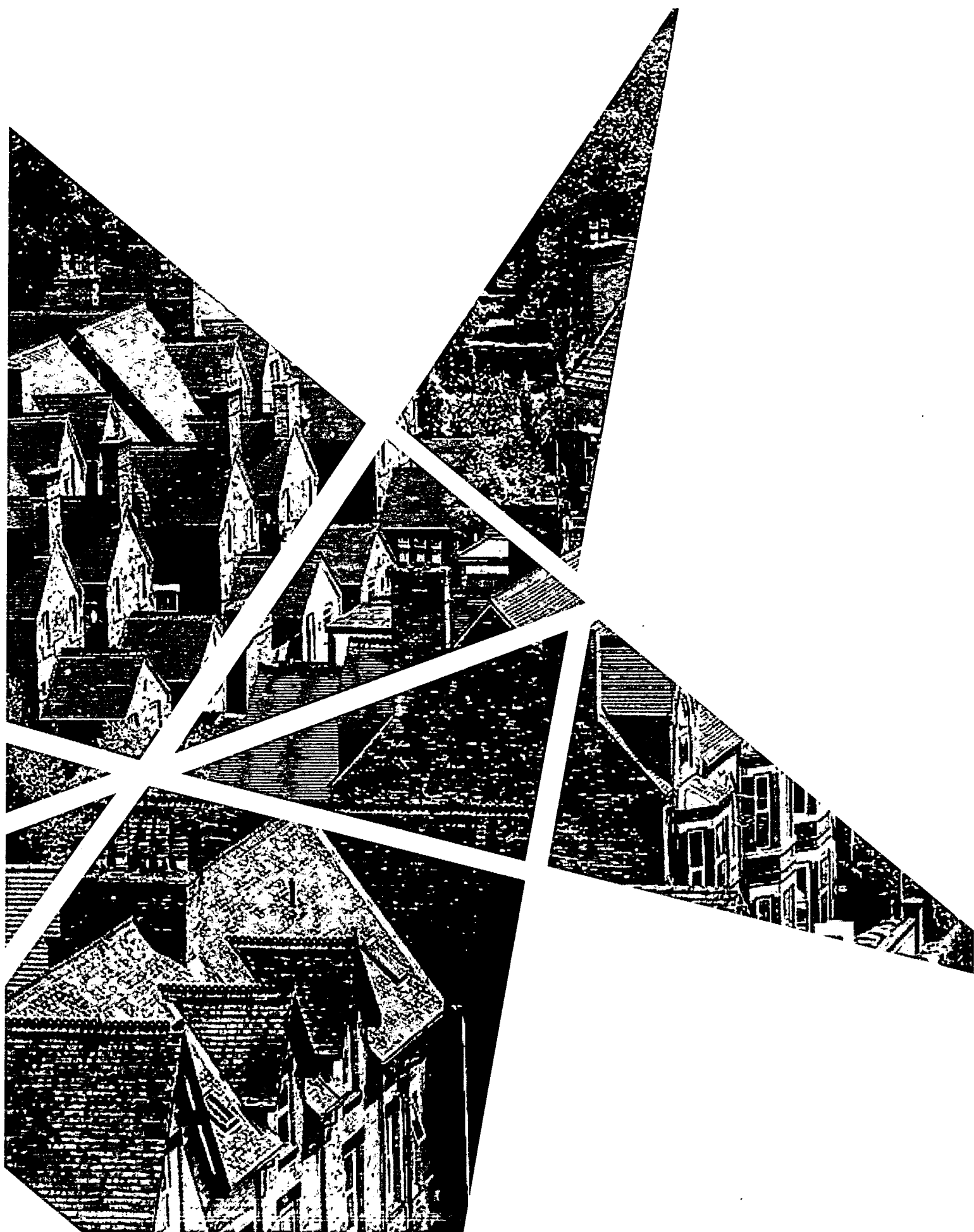
**Geraint Jones (Senior Statutory Auditor)**  
For and on behalf of BDO LLP, Statutory Auditor  
London  
United Kingdom

20 November 2019

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

# Financials





# Consolidated Statement of Comprehensive Income

for the year ended 30 September 2019

	Note	Year ended 30 September 2019 £000s	12 July 2017 to 30 September 2018 £000s
<b>Income</b>	<b>6</b>	<b>21,621</b>	<b>10,418</b>
Cost of sales	6	(9,562)	(4,719)
<b>Net income</b>		<b>12,059</b>	<b>5,699</b>
<b>Operating expenses</b>			
Fund management fee	7	(1,843)	(2,160)
General and administrative expenses	8	(1,030)	(1,190)
Aborted acquisition costs		(227)	–
<b>Total operating expenses</b>		<b>(3,100)</b>	<b>(3,350)</b>
<b>Operating profit before property disposals and change in fair value</b>		<b>8,959</b>	<b>2,349</b>
Profit on disposal of investment properties		56	–
Change in fair value of investment properties	11	8,656	14,825
<b>Operating profit before finance costs</b>		<b>17,671</b>	<b>17,174</b>
Finance income	12	98	237
Finance costs	12	(4,444)	(1,300)
Change in fair value of interest rate swap derivative contracts	12	(89)	–
<b>Profit for the period before taxation</b>		<b>13,236</b>	<b>16,111</b>
Taxation	13	–	–
<b>Profit for the period after taxation</b>		<b>13,236</b>	<b>16,111</b>
<b>Other comprehensive income:</b>			
Cashflow hedge		–	(383)
Recycling of cashflow hedge reserve		–	383
		–	–
<b>Total comprehensive income for the period attributable to the shareholders of the Company</b>		<b>13,236</b>	<b>16,111</b>
<b>Earnings per share – basic and diluted – pence</b>	<b>14</b>	<b>7.7</b>	<b>9.0</b>

All of the activities of the Group are classified as continuing.

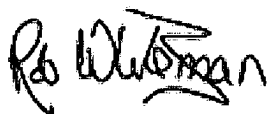
The notes on pages 54 to 72 form part of these financial statements.

# Consolidated Statement of Financial Position

as at 30 September 2019

	Note	30 September 2019 £000s	30 September 2018 £000s
<b>Non-current assets</b>			
Investment properties	16	290,162	252,875
<b>Total non-current assets</b>		<b>290,162</b>	<b>252,875</b>
<b>Current assets</b>			
Inventories – properties available for sale	15	2,633	–
Trade and other receivables	17	2,652	2,747
Deposits paid for acquisition	18	6,334	–
Cash and cash equivalents	19	26,205	11,796
<b>Total current assets</b>		<b>37,824</b>	<b>14,543</b>
<b>Total assets</b>		<b>327,986</b>	<b>267,418</b>
<b>Current liabilities</b>			
Trade and other payables	20	4,459	4,544
Borrowings	21	373	257
Interest rate swap derivative contracts	22	–	–
Obligations under finance leases	30	934	886
<b>Total current liabilities</b>		<b>5,766</b>	<b>5,687</b>
<b>Non-current Liabilities</b>			
Borrowings	21	107,819	51,303
Interest rate swap derivative contracts	22	89	–
Obligations under finance leases	30	28,598	26,829
<b>Total non-current liabilities</b>		<b>136,506</b>	<b>78,132</b>
<b>Total liabilities</b>		<b>142,272</b>	<b>83,819</b>
<b>Net assets</b>		<b>185,714</b>	<b>183,599</b>
<b>Equity</b>			
Share capital	23	1,803	1,803
Share premium	24	108	108
Own shares reserve	25	(8,622)	(5,199)
Retained earnings	26	192,425	186,887
<b>Total interests</b>		<b>185,714</b>	<b>183,599</b>
<b>Total equity</b>		<b>185,714</b>	<b>183,599</b>
<b>Net asset value per share – basic and diluted (pence)</b>	31	<b>108.6</b>	<b>105.1</b>

The financial statements were approved and authorised for issue by the Board of Directors on 20 November 2019 and signed on its behalf by:



Robert Whiteman  
Chairman

Date: 20 November 2019

The notes on pages 54 to 72 form part of these financial statements.

Registered in England and Wales with registered number  
10683026.

# Consolidated Statement of cash flows

as at 30 September 2019

	Notes	30 September 2019 £000s	30 September 2018 £000s
<b>Cash flows from operating activities</b>			
Profit for the period		13,236	16,111
<b>Adjustments for items that are not operating in nature:</b>			
Gain in fair value of investment properties	11	(8,656)	(14,825)
Loss in fair value of interest rate swap	12	89	–
Profit on disposal of investment properties		(56)	–
Shares issued in lieu of management fees		461	540
Finance income		(98)	(237)
Finance costs		4,444	1,300
<b>Operating result before working capital changes</b>		<b>9,420</b>	<b>2,889</b>
<b>Changes in working capital</b>			
Increase in trade and other receivables		94	(2,697)
Increase in inventories		(2,633)	–
(Decrease)/increase in trade and other payables		(344)	4,466
<b>Net cash flow generated from operating activities</b>		<b>6,537</b>	<b>4,658</b>
<b>Cash flow from investing activities</b>			
Purchase of investment properties	16	(28,536)	(210,335)
Grant received	16	952	–
Disposal of investment properties		826	–
Deposits paid for acquisition	18	(6,334)	–
Interest received	12	98	237
Amounts transferred into restricted cash deposits	19	(63)	(1,110)
<b>Net cash flow from investing activities</b>		<b>(33,057)</b>	<b>(211,208)</b>
<b>Cash flow from financing activities</b>			
Proceeds from shares issued in the period	23	–	180,000
Formation and issue costs paid	23	–	(3,600)
Purchase of own shares	25	(3,884)	(5,421)
New borrowings raised (net of expenses)	21	56,972	51,624
Bank loans repaid		(504)	(78)
Finance costs	12	(4,020)	(1,286)
Dividend paid	29	(7,698)	(4,003)
<b>Net cash flow generated from financing activities</b>		<b>40,866</b>	<b>217,236</b>
<b>Net increase in cash and cash equivalents</b>		<b>14,346</b>	<b>10,686</b>
Cash and cash equivalents at the beginning of the period	19	10,686	–
<b>Cash and cash equivalents at the end of the period</b>	<b>19</b>	<b>25,032</b>	<b>10,686</b>

The notes on pages 54 to 72 form part of these financial statements.

# Consolidated Statement of Changes in Equity

for the year ended 30 September 2019

	Share capital £000s	Share premium £000s	Own shares reserve £000s	Retained earnings £000s	Total equity £000s
<b>Balance at 11 July 2017</b>	-	-	-	(28)	(28)
Profit for the period	-	-	-	16,111	16,111
Other comprehensive income	-	-	-	-	-
<b>Total comprehensive income</b>	-	-	-	16,111	16,111
<b>Contributions by and distributions to shareholders</b>					
Ordinary shares issued on IPO	1,800	178,200	-	-	180,000
Share issue costs capitalised	-	(3,600)	-	-	(3,600)
Issue of management shares	3	315	222	(540)	-
Change in fair value of financial instruments	-	-	-	540	540
Cancellation of share premium	-	(174,807)	-	174,807	-
Purchase of own shares	-	-	(5,421)	-	(5,421)
Dividends paid	-	-	-	(4,003)	(4,003)
<b>Balance at 30 September 2018</b>	<b>1,803</b>	<b>108</b>	<b>(5,199)</b>	<b>186,887</b>	<b>183,599</b>
Profit for the period	-	-	-	13,236	13,236
Other comprehensive income	-	-	-	-	-
<b>Total comprehensive income</b>	-	-	-	13,236	13,236
<b>Contributions by and distributions to shareholders</b>					
Issue of management shares	-	-	461	(461)	-
Share based payment charge	-	-	-	461	461
Purchase of own shares	-	-	(3,884)	-	(3,884)
Dividends paid	-	-	-	(7,698)	(7,698)
<b>Balance at 30 September 2019</b>	<b>1,803</b>	<b>108</b>	<b>(8,622)</b>	<b>192,425</b>	<b>185,714</b>

The notes on pages 54 to 72 form part of these financial statements.

Overview

Strategic Report

Governance

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Additional Information

# Notes to the Financial Statements

## 1. General information

Residential Secure Income plc ("the Company") was incorporated in England and Wales under the Companies Act 2006 as a public company limited by shares on 21 March 2017. The Company's registration number is 10683026. The registered office of the Company is located at Mermaid House, Puddle Dock, London EC4V 3DB.

The Company achieved admission to the premium listing segment of the main market of the London Stock Exchange on 12 July 2017.

The Company and its subsidiaries (the "Group") invests in residential asset classes that comprise the stock of registered UK social housing providers, Housing Associations and Local Authorities.

## 2. Basis of preparation

These financial statements for the year ended 30 September 2019 have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations issued by the International Accounting Standards Board ("IASB") as adopted by the European Union and in accordance with the Companies Act 2006.

The financial statements have been prepared on a historical cost basis, except for investment properties and derivative financial instruments which have been measured at fair value.

The comparatives presented are for the period from 12 July 2017 to 30 September 2018 due to it being the Company's first accounting period following admission to the London Stock Exchange. As a result the amounts presented in the financial statements are not entirely comparable.

The financial statements have been rounded to the nearest thousand and are presented in Sterling, except when otherwise indicated.

### a) Going concern

The Directors have made an assessment of the Group's ability to continue as a going concern and are satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the Directors are not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the financial statements have been prepared on the going concern basis.

### b) Changes to accounting standards and interpretations

#### New standards adopted during the year

The following new accounting standards, interpretations and amendments, endorsed by the EU were effective for the first time for the Group's 30 September 2019 year end and had no material impact on the financial statements:

- IFRS 9 Financial Instruments (effective from 1 October 2018) – the standard applies to classification and measurement of financial assets and financial liabilities, impairment provisioning and hedge accounting.

The Group adopted the expected credit loss model when calculating impairment losses on its financial assets

measured at amortised cost (such as trade and other receivables). This resulted in greater judgement due to the need to factor in forward looking information when estimating the appropriate amount of provisions. To measure expected credit losses the Group considered the probability of a default occurring over the contractual life of its trade receivables. Historically the Group has not had to provide for or write off any significant debt balances from tenants. The Group concludes that this had no material impact on its financial statements. This is due to the Company having a majority of tenants with strong covenants and generally tenant receipts are received in advance or on the due date, therefore the Group considers the probability of default to be low.

- IFRS 15 Revenue From Contracts With Customers (effective from 1 October 2018) – the standard is applicable to trading property sales proceeds and proceeds from the sale of investment properties, but not rental income arising from the Group's leases with tenants. The Group has completed its assessment of IFRS 15 and concludes that its adoption had no material impact on the Group's financial statements.

#### Standards in issue but not yet effective

The following standards, interpretations and amendments were in issue at the date of approval of these financial statements but were not yet effective for the current accounting year and have not been adopted early.

- IFRS 16 Leases (effective from 1 October 2019) – the Group continues to assess the impact of IFRS 16 Leases, effective from 1 October 2019. The Group has conducted an initial impact assessment, considering a sample of leases and the associated accounting treatment and disclosure. Where the Group is a lessor there will be no material change in accounting treatment or disclosure. Where the Group is a lessee the liability will be remeasured when the cashflows relating to the lease change due to a rent review or indexation. The remeasurement will not have any impact on the net profit as the remeasurement will affect only the right of use assets and finance lease liabilities in the statement of financial position.

## 3. Significant accounting policies

The significant accounting policies applied in the preparation of the financial statements are set out below. The policies have been consistently applied throughout the period.

### a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (its subsidiaries) at the period end date.

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group:

- is exposed to, or has rights to, variable returns from its involvement with the entity; and
- has the ability to affect those returns through its power to direct the activities of the entity.

All intra-group transactions, balances, income and expenses are eliminated on consolidation. The financial information of



the subsidiaries is included in the financial statements from the date that control commences until the date that control ceases.

If an equity interest in a subsidiary is transferred but a controlling interest continues to be held after the transfer then the change in ownership interest is accounted for as an equity transaction.

Accounting policies of the subsidiaries are consistent with the policies adopted by the Company.

#### **b) Acquisitions and business combinations**

The Directors assess whether each acquisition is a business or asset acquisition. Under IFRS 3, a business is defined as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants. A business will usually consist of inputs, processes and outputs.

Business acquisitions are accounted for using the acquisition method. To date the Group has not acquired any businesses. Acquisitions that do not meet the definition of a business are accounted for as asset acquisition. Asset acquisitions are accounted for by applying the Group's relevant accounting policy relating to the assets being acquired.

#### **c) Investment properties**

Investment properties, which are properties held to earn rentals and/or for capital appreciation, are initially measured at cost, being the fair value of the consideration given, including expenditure that is directly attributable to the acquisition of the investment property. After initial recognition, investment property is stated at its fair value at the Statement of Financial Position date adjusted for the carrying value of leasehold interests. Gains and losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise in the Statement of Comprehensive Income.

Investment property is recognised as an asset when it is probable that the economic benefits that are associated with the property will flow to the Group and it can measure the cost of the investment reliably. This is usually on legal completion.

Subsequent expenditure is capitalised only when it is probable that future economic benefits are associated with the expenditure.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected to be obtained from the asset. Any gain or loss arising on de-recognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recorded in profit or loss in the period in which the property is derecognised.

Significant accounting judgements, estimates and assumptions made for the valuation of investment properties are discussed in note 16.

#### **d) Inventories**

Inventories relate to properties held for delivery as to Shared Ownership which provides affordable homes ownership through a part-buy, part-rent model, where Shared Owners buy a stake in the home (with a lower deposit requirement as it is only required as a percentage of this stake) and pay a discounted rent on the portion of the property that the Shared Owner(s) does not own. In accordance with IAS 2 Inventories, they are held at the lower of cost and net realisable value.

#### **e) Shared ownership**

Shared ownership is where initially a long lease on a property is granted through a sale to the occupier, in return for an initial payment (the First Tranche).

First Tranche sales are included within turnover and the related proportion of the cost of the asset recognised as cost of sales.

Shared ownership properties are split proportionately between Inventories and Investment properties based on the current element relating to First Tranche sales. The assumptions on which the First Tranche proportion has been based include, but are not limited to, matters such as the affordability of the shared ownership properties, local demand for shared ownership properties, and general experience of First Tranche shared ownership sales within ReSI Housing and the wider the social housing sector.

Shared Owners have the right to acquire further tranches and any surplus or deficit on such subsequent sales are recognised in the Statement of Comprehensive Income as a part disposal of Investment properties.

Where a grant is receivable from government and other bodies as a contribution towards the capital cost of shared ownership investment property, it is recognised as a deduction in arriving at the cost of the property. Prior to satisfying any performance obligations related to grant, such grants are held as a liability on the Statement of Financial Position.

In some circumstances, typically when a Shared Owner staircases, there arises an obligation to recycle the grant into the purchase of new affordable properties within three years or to repay the grant to the relevant government body. Where such an obligation exists the grant will be held as a liability on the Statement of Financial Position.

#### **f) Share issue costs**

The costs of issuing or reacquiring equity instruments (other than in a business combination) are accounted for as a reduction to share premium to the extent that share premium has arisen on the related share issue.

#### **g) Revenue**

The Group recognises revenue on an accruals basis, and when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the Group. Revenue comprises rental income and First Tranche sales of Shared Ownership properties.

Gross rental income is rental income, recognised on a straight-line basis over the term of the underlying lease and is included in the Group Statement of Comprehensive Income. Lease incentives granted are recognised as an integral part of the net consideration for the use of the property and are therefore recognised on the same straight-line basis over the term of the lease.

# Notes to the Financial Statements

continued

Amounts received from tenants to terminate leases or to compensate for dilapidations are recognised in the Group Statement of Comprehensive Income when the right to receive them arises.

Gross ground rental income is recognised on a straight-line basis over the term of the underlying lease.

Income from property sales is recognised when performance conditions are fulfilled which is usually at the point of legal completion.

## **h) Cost of sales**

Included within First Tranches cost of sales are costs relating to the first tranche sale portion of newly acquired shared ownership properties. These costs include a share of expenditure incurred for acquisition of those properties in proportion to the First Tranche percentage sold, direct overheads, and other incidental costs incurred during the course of the sale of those properties.

## **i) Expenses**

The Group recognises all expenses on an accruals basis.

## **j) Finance income and expense**

Finance income comprises interest receivable on funds invested. Financing expenses comprise interest payable, interest charged on head lease liabilities, amortisation of loan fees and the reclassification of amounts to profit or loss from the cash flow hedge.

Interest income and interest payable is recognised as profit and loss as they accrue, using the effective interest method.

## **k) Taxation**

Taxation on the profit or loss for the period not exempt under UK REIT regulations comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income except to the extent that it relates to items recognised as direct movement in equity, in which case it would be recognised as a direct movement in equity. Current tax is expected tax payable on any non-REIT taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax is provided in full using the balance sheet liability method on timing differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the asset is realised or the liability is settled.

No provision is made for timing differences (i) arising on the initial recognition of assets or liabilities, other than on a business combination, that affect neither accounting nor taxable profit and (ii) relating to investments in subsidiaries to the extent that they will not reverse in the foreseeable future.

## **l) Dividend payable to shareholders**

Equity dividends are recognised when they become legally payable which for the final dividends is the date of approval by the members. Interim dividends are recognised when paid.

## **m) Financial instruments**

### **Financial assets**

#### **Recognition of financial assets**

All financial assets are recognised on a trade date which is the date when the Group becomes a party to the contractual provisions of the instrument.

#### **Initial measurement and classification of financial assets**

Financial assets are classified into the following categories: 'financial assets at fair value through profit or loss' and 'financial assets at amortised cost'. The classification depends on the business model in which the asset is managed and on the cashflows associated with that asset.

Financial assets are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

#### **Fair value through profit or loss**

This category comprises in-the-money derivatives and out-of-the-money derivatives where the time value offsets the negative intrinsic value (see "Financial liabilities" section for out-of-the-money derivatives classified as liabilities). They are carried in the Consolidated Statement of Financial Position at fair value with changes in fair value recognised in the Group Statement of Comprehensive Income in the finance income or expense line.

At 30 September 2019 the Group had the following non-derivative financial assets which are held at amortised cost:

#### **Cash and cash equivalents**

Cash and short-term deposits on the balance sheet comprise cash at bank (including investments in money-market funds) and short-term deposits with an original maturity of three months or less.

#### **Trade and other receivables**

Trade and other receivables are recognised at their original invoiced value. Where the time value of money is material, receivables are discounted and then held at amortised cost, less provision for expected credit loss.

#### **Impairment of financial assets**

The Group applies the IFRS 9 simplified approach to measuring the expected credit losses for trade and other receivables whereby the allowance or provision for all trade receivables is based on the lifetime expected credit losses ("ECLs").

The Group applies the general approach for initial recognition and subsequent measurement of expected credit loss provisions for the loan receivable and other receivables which have maturities of 12 months or more and have a significant finance component.

This approach comprises of a three-stage approach to evaluating expected credit losses. These stages are classified as follows:

#### **Stage 1**

Twelve-month expected credit losses are recognised in profit or loss at initial recognition and a loss allowance is established.

For financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk at the reporting date, the loss allowance for 12-month expected credit losses is maintained and updated for changes in amount. Interest revenue is calculated on the gross carrying amount of the asset (i.e. without reduction for expected credit losses).

#### Stage 2

If the credit risk increases significantly and the resulting credit quality is not considered to be low credit risk, full lifetime expected losses are recognised and include those financial instruments that do not have objective evidence of a credit loss event. Interest revenue is still calculated on the gross carrying amount of the asset.

#### Stage 3

If the credit risk of a financial asset increases to the point that it is considered credit impaired (there is objective evidence of impairment at the reporting date), lifetime expected credit losses continue to be recognised. For financial assets in this stage, lifetime expected credit losses will generally be individually assessed. Interest revenue is calculated on the amortised cost net carrying amount (amortised cost less impairment).

#### De-recognition of financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership to another entity. If any interest in a transferred asset is retained then the Group recognises its retained interest in the asset and associated liabilities.

#### Financial liabilities

##### Recognition of financial liabilities

All financial liabilities are recognised on the date when the Group becomes a party to the contractual provisions of the instrument.

##### Initial measurement and classification of financial liabilities

Financial liabilities are classified into the following categories: 'financial liabilities at fair value through profit or loss' and 'other financial liabilities'. The classification depends on the nature and purpose of the financial liabilities and is determined at the time of initial recognition.

Financial liabilities are initially measured at fair value, net of transaction costs, except for those financial liabilities classified as at fair value through profit or loss, which are initially measured at fair value.

##### Fair value through profit or loss

This category comprises out-of-the-money derivatives where the time value does not offset the negative intrinsic value (see "Financial assets" section for in-the-money derivatives and out-of-the-money derivatives where the time value offsets the negative intrinsic value). They are carried in the Consolidated Statement of Financial Position at fair value with changes in fair value recognised in the Group Statement of Comprehensive Income in the finance income or expense line.

At 30 September 2019 the Group had the following non-derivative financial liabilities which are classified as other financial liabilities:

##### Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently held at amortised cost.

##### Borrowings

Borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, borrowing costs are stated at amortised cost with any difference between the amount initially recognised and the redemption value being recognised in profit or loss in the Statement of Comprehensive Income over the period of the borrowings using the effective interest method.

##### De-recognition of financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

##### n) Derivative instrument and hedge accounting

Derivative financial instruments, comprising interest rate swaps held for hedging purposes, are initially recognised at fair value and are subsequently measured at fair value being the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at a measurement date.

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

At the time the hedged item affects profit or loss, any gain or loss previously recognised in other comprehensive income is recycled through Other Comprehensive Income.

##### o) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

##### Leases – the Group as lessor

Rentals receivable under operating leases are recognised in the income statement on a straight-line basis over the term of the relevant lease. In the event that lease incentives are granted to a lessee, such incentives are recognised as an asset. The aggregate cost of the incentives is recognised as a reduction in rental income on a straight-line basis over the term of the relevant lease.

##### Leases – the Group as lessee

Where a property is held under a head lease classified as a finance lease, the head lease is initially recognised at the lower of the fair value of the property and the present value of the

# Notes to the Financial Statements

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minimum lease payments, and a corresponding liability is recorded within borrowings. Each lease payment is allocated between repayment of the liability and a finance charge to achieve a constant rate on the outstanding liability.

## p) Share based payments

The fair value of payments made to the Fund Manager that are to be settled by the issue of shares is determined on the basis of the Net Asset Value of the Group. The estimated number of shares to be issued in satisfaction of the services provided is calculated using the daily closing share price of the Company at the date of calculation.

## 4. Significant accounting judgements and estimates

The preparation of financial statements in accordance with the principles of IFRS required the Directors of the Group to make judgements, estimates and assumptions that affect the reported amounts recognised in the financial statements. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability in the future. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

### Estimates:

#### Investment properties

The Group uses the valuation carried out by its independent valuers as the fair value of its property portfolio. The assumptions on which the property valuation reports have been based include, but are not limited to, matters such as the tenure and tenancy details for the properties, ground conditions at the properties, the structural condition of the properties, prevailing market yields and comparable market transactions. Further information is provided in note 16.

The Group's properties have been independently valued by Savills (UK) Limited ("Savills" or the "Valuer") in accordance with the definitions published by the Royal Institute of Chartered Surveyors' ("RICS") Valuation – Professional Standards, July 2017, Global and UK Editions (commonly known as the "Red Book"). Savills is one of the most recognised professional firms within residential and social housing property valuation, has sufficient current local and national knowledge and has the skills and understanding to undertake the valuations competently.

If the assumptions upon which the external valuer has based its valuations prove to be inaccurate, this may have an impact on the value of the Group's investment properties, which could in turn have an effect on the Group's financial position and results. Further information is provided in note 16.

With respect to the Group's Financial Statements, investment properties are valued at their fair value at each Statement of Financial Position date in accordance with IFRS 13 which recognises a variety of fair value inputs depending upon the nature of the investment. Specifically:

Level 1 – Unadjusted, quoted prices for identical assets and liabilities in active (typically quoted) markets;

Level 2 – Quoted prices for similar assets and liabilities in active markets.

Level 3 – Inputs not based on observable market data (that is, unobservable inputs).

The Group's investment properties are included in Level 3 as the inputs to the valuation are not based on observable market data.

### Shared Ownership Properties:

#### First Tranche Sales

The Group estimates the proportion of Shared Ownership properties that will be sold as First Tranche sales and therefore classified as inventory rather than investment property. The assumptions on which the proportion has been based include, but are not limited to, matters such as the affordability of the shared ownership properties, local demand for shared ownership properties, and general experience of First Tranche shared ownership sales in the social housing sector. The first tranche sales percentage used is consistent with values used by the valuers. As at 30 September 2019 the average first tranche sales percentage assumed for vacant shared ownership properties is 25%. If there is a change in percentage used, this will affect the proportion of inventory and investment property recognised with a higher assumed first tranche sale percentage resulting in a higher inventory value and lower investment property value.

## 5. Operating segments

IFRS 8, Operating Segments, requires operating segments to be identified on the basis of internal financial reports about components of the Group that are regularly reviewed by the chief operating decision maker (which in the Group's case is the Board of Directors) in order to allocate resources to the segments and to assess their performance.

The Group's reporting to the chief operating decision maker does not differentiate by property type or location as the Group is considered to be operating in a single segment of business and in one geographical area.

No customers have revenue that is greater than 10% of the total Group revenue.

The internal financial reports received by the Board of Directors contain financial information at a Group level and there are no reconciling items between the results contained in these reports and the amounts reported in the Financial Statements.

## 6. Income less cost of sales

	Net property income £000s	First tranche sales £000s	Year ended 30 Sept 2019 Total £000s	12 July 2017 to 30 Sept 2018 Total £000s
Gross Rental income	19,621	–	19,621	10,418
First tranche property sales	–	2,000	2,000	–
<b>Total income</b>	<b>19,621</b>	<b>2,000</b>	<b>21,621</b>	<b>10,418</b>
Service charge expenses	(4,253)	–	(4,253)	(2,575)
Property operating expenses	(3,249)	–	(3,249)	(2,127)
Impairment of receivables	(2)	–	(2)	(17)
First tranche cost of sales	–	(2,058)	(2,058)	–
<b>Total cost of sales</b>	<b>(7,504)</b>	<b>(2,058)</b>	<b>(9,562)</b>	<b>(4,719)</b>
<b>Gross profit/(loss) before ground rents</b>	<b>12,117</b>	<b>(58)</b>	<b>12,059</b>	<b>5,699</b>
Ground rents disclosed as finance lease interest	(883)	–	(883)	(432)
<b>Gross profit/(loss) after ground rents disclosed as finance lease asset</b>	<b>11,234</b>	<b>(58)</b>	<b>11,176</b>	<b>5,267</b>

The gross profit/(loss) after ground rents disclosed as finance lease interest is presented to provide what the Board believes is a more appropriate assessment of the Group's net property income. Ground rent costs are an inherent cost of holding certain leasehold properties and are taken into consideration by Savills when valuing the Group's properties.

## 7. Fund management fee

	Year ended 30 Sept 2019 £000s	12 July 2017 to 30 Sept 2018 Total £000s
Cash portion	1,382	1,620
Equity	461	540
	<b>1,843</b>	<b>2,160</b>

ReSI Capital Management Limited acts as Alternative Investment Fund Manager (the "Fund Manager"), in compliance with the provisions of the AIFMD, pursuant to the Fund Management Agreement.

The Fund Manager is entitled to an annual management fee (the "Fund Manager Fee") under the Fund Management Agreement with effect from the date of Admission, as follows:

- On that part of the Net Asset Value up to and including £250 million, an amount equal to 1% p.a. of such part of the Net Asset Value;
- on that part of the Net Asset Value over £250m and including £500m, an amount equal to 0.9% p.a. of such part of the Net Asset Value;
- on that part of the Net Asset Value over £500m and up to and including £1,000m, an amount equal to 0.8% p.a. of such part of the Net Asset Value;
- on that part of the Net Asset Value over £1,000m, an amount equal to 0.7% p.a. of such part of the Net Asset Value.

The Fund Management Fee is paid quarterly in advance. 75% of the total Fund Management Fee is payable in cash and 25% of the total Fund Management Fee (net of any applicable tax) is payable in the form of Ordinary Shares rather than cash.

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## 8. General and administrative expenses

	Year ended 30 Sept 2019 £000s	12 July 2017 to 30 Sept 2018 £000s
Professional fees	640	679
Directors' fees and expenses (Note 9)	222	262
Fees paid to the Company's auditor (Note 10)	158	217
Other expenses	10	32
	1,030	1,190
<b>Total expenses ratio</b>		
Management fee	1,843	2,160
General and administrative expenses	1,030	1,190
Adjusted earnings	2,873	3,350
Net Asset Valuation	185,714	183,599
Annualised total expenses ratio	1.5%	1.8%

## 9. Directors' fees and expenses

	Year ended 30 Sept 2019 £000s	12 July 2017 to 30 Sept 2018 £000s
Fees	155	187
Taxes	14	19
Expenses	1	9
Total	170	215
Fees paid to directors of subsidiaries	52	47
	222	262

The Group had no employees during the year (2018: Nil) other than the Directors and Directors of subsidiaries.

The Chairman is entitled to receive a fee linked to the Net Asset Value of the Group as follows:

Net Asset Value	Annual Fee
Up to £100,000,000	£40,000
£100,000,000 to £200,000,000	£50,000
£200,000,000 to £350,000,000	£60,000
Thereafter	£70,000

Each of the Directors, save the Chairman, is entitled to receive a fee linked to the Net Asset Value of the Group as follows:

Net Asset Value	Annual Fee
Up to £100,000,000	£30,000
£100,000,000 to £200,000,000	£35,000
Thereafter	£40,000

None of the Directors received any advances or credits from any Group entity during the year (2018: Nil).

## 10. Fees paid to the Company's auditor

	Year ended 30 Sept 2019 £000s	12 July 2017 to 30 Sept 2018 £000s
<b>Audit fees</b>		
Parent and consolidated financial statements	42	34
Audit of subsidiary undertakings	80	98
<b>Total audit fees</b>	122	132
<b>Audit related services</b>		
Review of interim report	36	25
<b>Non-audit services</b>		
Reporting accountant services	–	60
<b>Total audit related and non-audit services</b>	36	85
<b>Total fees</b>	158	217

## 11. Change in fair value

	Year ended 30 Sept 2019 £000s	12 July 2017 to 30 Sept 2018 £000s
Gain on fair value adjustment of investment properties	8,656	14,825
	8,656	14,825

## 12. Net finance costs

	Year ended 30 Sept 2019 £000s	12 July 2017 to 30 Sept 2018 £000s
<b>Finance income</b>		
Interest income	98	237
	98	237
<b>Finance expense</b>		
Interest payable on borrowings	(3,394)	(471)
Other interest	(3)	–
Amortisation of loan costs	(164)	(14)
Loss on cash flow hedge	–	(383)
Finance lease interest	(883)	(432)
	(4,444)	(1,300)
<b>Movement in fair value of derivative contracts</b>		
Interest rate swaps	(89)	–
<b>Net finance costs</b>	<b>(4,435)</b>	<b>(1,063)</b>

The Group's interest income during the year relates to cash invested in a money market fund, which is invested in short-term AAA rated Sterling instruments.

Ground rents paid in respect of leasehold properties have been recognised as a finance cost in accordance with IAS 17 "Leases".

Movement in fair value of derivative contracts arises from interest rate swaps entered into in February 2019 to partially fix the £14m of debt secured on the Local Authority portfolio.

## 13. Taxation

	Year ended 30 Sept 2019 £000s	12 July 2017 to 30 Sept 2018 £000s
Current tax	–	–
Deferred tax	–	–
The tax charge for the period varies from the standard rate of corporation tax in the UK applied to the profit before tax. The differences are explained below:		
	Year ended 30 Sept 2019 £000s	12 July 2017 to 30 Sept 2018 £000s
Profit before tax	13,326	16,111
Tax at the UK corporation tax rate of 19% (2018: 19%)	2,532	3,061
<i>Tax effect of:</i>		
UK tax not payable due to REIT exemption	(1,008)	(778)
Investment property revaluation not taxable	(1,645)	(2,817)
Expenses that are not deductible in taxable profit	121	534
Tax charge for the period	–	–

As a UK REIT the Group is exempt from corporation tax on the profits and gains from its property rental business provided it meets certain conditions set out in the UK REIT regulations.

The Government has announced that the corporation tax standard rate is to be reduced from 19% to 17% with effective date from 1 April 2020.

# Notes to the Financial Statements

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## 14. Earnings per share

Basic earnings per share ('EPS') is calculated as profit attributable to Ordinary Shareholders of the Company divided by the weighted average number of shares in issue throughout the relevant period.

	Year ended 30 Sept 2019 £000s	12 July 2017 to 30 Sept 2018 £000s
Profit attributable to Ordinary shareholders	13,236	16,111
Deduction of fair value movement on investment properties and interest rate swap unwinding cost	(8,567)	(14,442)
Deduction of first tranche sales & cost of sales	58	–
Deduction of aborted acquisition costs	227	–
Deduction of profit on disposal of investment properties	(56)	–
Adjusted earnings	4,898	1,669
Weighted average number of ordinary shares	171,320,263	178,542,456
Basic earnings per share (pence)		
– 2019 (pence)	7.7	
– 2018 (pence)		9.0
Adjusted earnings per share (pence)		
– 2019 (pence)	2.9	
– 2018 (pence)		0.9

The adjusted earnings are presented to provide what the Board believes is a more appropriate assessment of the operational income accruing to the Group's activities. Hence, the Group adjusts basic earnings for income and costs which are not of a recurrent nature or which may be more of a capital nature.

## 15. Inventories – properties available for sale

	2019 £000s	2018 £000s
Shared Ownership properties	2,633	–
	2,633	–

## 16. Investment properties

	2019 £000s	2018 £000s
At beginning of period	252,875	–
Property acquisitions at cost	27,941	210,335
Grant receivable	(952)	–
Capital expenditure	595	–
Property disposals	(770)	–
Finance lease asset movement	1,817	27,715
Change in fair value during the period	8,656	14,825
At end of period	290,162	252,875
Valuation provided by Savills	260,630	225,160
Adjustment to fair value – finance lease asset	29,532	27,715
Total investment properties	290,162	252,875

The table below shows the total value of the Group's investment properties including committed properties with purchase contracts exchanged. Consistent with the valuation provided by Savills, the adjustment to fair value in respect of finance lease assets for ground rents receivable has been excluded to show the value of the asset net of all payments to be made (including ground rent payments). Committed properties with purchase contracts exchanged have been included to provide an indication of the value of all properties to which the Group is contractually committed.

	2019 £000s	2018 £000s
Total investment properties	290,162	252,875
Adjustment to fair value – finance lease asset	(29,532)	(27,715)
Committed properties with purchase contracts exchanged	60,600	–
Total investment properties including committed properties with purchased contracts exchanged	321,230	225,160

The investment properties are divided into:

	2019 £000s	2018 £000s
Leasehold properties	218,215	182,628
Freehold properties*	42,415	42,532
Finance lease asset	29,532	27,715
Total investment properties	290,162	252,875

\* Includes Freehold properties, the Scottish equivalent of Freehold.



The historical cost of investment properties at 30 September 2019 was £237,090,923 (2018: £210,354,683).

In accordance with "IAS 40: Investment Property", the Group's investment properties have been independently valued at fair value by Savills (UK) Limited ("Savills"), an accredited external valuer with recognised and relevant professional qualifications.

The carrying values of investment property as at 30 September 2019 agree to the valuations reported by external valuers, except that the valuations have been increased by the amount of finance lease liabilities recognised in respect of investment properties held under leases of £29,532,243 (£27,715,195 at 30 September 2018), representing the present value of ground rents payable for the properties held by the Group under leasehold – further information is provided in note 30. This is because the independent valuations are shown net of all payments expected to be made. However, for financial reporting purposes in accordance with IAS 40, "Investment Property", the carrying value of the investment properties includes the present value of the minimum lease payments in relation to these finance leases. The related finance lease liabilities are presented separately on the Statement of Financial Position.

The Group's investment objective is to provide shareholders with an attractive level of income, together with the potential for capital growth, from acquiring portfolios of homes across residential asset classes that comprise the stock of statutory registered providers.

The Group intends to hold its investment property portfolio over the long term, taking advantage of upward-only inflation linked leases. The Group will not be actively seeking to dispose of any of its assets, although it may dispose of investments should an opportunity arise that would enhance the value of the Group as a whole.

The Group has pledged certain of its investment properties to secure loan facilities granted to the Group (see note 21).

In accordance with IFRS 13, the Group's investment property has been assigned a valuation level in the fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets (Level 1) and the lowest priority to unobservable inputs (Level 3). The Group's investment property as at 30 September 2019 is categorised as Level 3.

ReSI's Shared Ownership properties are valued by Savills using a discounted cashflow methodology applying a discount rate to estimated future cashflows. The discount rate applied, house price growth and staircasing rates are considered to be unobservable inputs.

Everything else being equal, there is a negative relationship between the discount rate and the property valuation, such that an increase in the discount rate will decrease the valuation of a property and vice versa. Conversely there is a positive relationship between future house price growth and the property valuation, such that an increase in future house price growth will increase the valuation of a property and vice versa. The relationship between future staircasing rates and property valuation may be either positive or negative depending on the discount rate and house price growth assumptions used for a given property. If a zero rate of staircasing is assumed this would result in an increase in the valuation of ReSI's Shared

Ownership properties as Savills apply a higher discount rate to staircasing cashflows as compared to rental cashflows. Equally, if it assumed that a property staircases immediately this would also result in increase in the valuation of ReSI's Shared Ownership properties as these properties are valued at a discount to their Open Market Value (the price at which Shared Owners staircase). The valuation movement is not materially sensitive to changes in each of these inputs.

ReSI's other investment properties are valued by Savills using a capitalisation methodology applying a yield to current and estimated rental income subject to certain adjustments for estimated vacant possession value and head lease length. Yields and rental values are considered to be unobservable inputs.

Everything else being equal, there is a positive relationship between rental values and the property valuation, such that an increase in rental values will increase the valuation of a property and vice versa. However, the relationship between capitalisation yields and the property valuation is negative; therefore an increase in capitalisation yields will reduce the valuation of a property and vice versa. There are interrelationships between these inputs as they are determined by market conditions, and the valuation movement in any one period depends on the balance between them. If these inputs move in opposite directions (i.e. rental values increase and yields decrease) valuation movements can be amplified, whereas if they move in the same direction they may be offset, reducing the overall net valuation movement. The valuation movement is materially sensitive to changes in yields and rental values however it is impractical to quantify these changes as the valuation is unique to each property and the outcome is dependent in interdependent factors including yields, recent market transactions, head lease length and other relevant information.

## 17. Trade and other receivables

	2019 £000s	2018 £000s
Rent receivable	283	86
Prepayments	2,321	1,821
Other debtors	48	840
	<b>2,652</b>	<b>2,747</b>

The Group applies the IFRS 9 simplified approach to measuring expected credit losses using a 12 month expected loss provision for rent receivables. To measure expected credit losses on a collective basis, rent receivables are grouped based on similar credit risk and ageing.

The expected loss rates are based on the Group's historical credit losses experienced since inception to the period end. The historical loss rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the Group's customers. Both the expected credit loss provision and the incurred loss provision in the current and prior years are immaterial. No reasonably possible changes in the assumptions underpinning the expected credit loss provision would give rise to a material expected credit loss.

There is no significant difference between the fair value and carrying value of trade and other receivables at the Statement of Financial Position date.

# Notes to the Financial Statements

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## 18. Deposits paid for acquisitions

	2019 £000s	2018 £000s
Deposit paid for acquisitions	6,334	–
	<b>6,334</b>	<b>–</b>

The deposit relates to the Clapham Park development in which ReSI exchanged contracts to acquire 132 new build apartments, in the London Borough of Lambeth, for a total acquisition cost of £60 million. The apartments are being purchased from Metropolitan Thames Valley Housing, one of the UK's largest Housing Associations, who will retain management of the apartments. ReSI expects to complete on the acquisition in Q1 2020.

## 19. Cash and cash equivalents

	2019 £000s	2018 £000s
Cash at bank	25,030	10,685
Cash held as investment deposit	2	1
	<b>25,032</b>	<b>10,686</b>
Restricted cash	1,173	1,110
	<b>26,205</b>	<b>11,796</b>

Included within cash at the period end was an amount totalling £1,172,990 (2018: £1,110,033) held by the managing agent of the RHP Portfolio in respect of tenancy rental deposits. The cash was placed in a separate bank account to which the Group has restricted access. Other funds were held by the management agent in an operating account to pay service charges in respect of the RHP Portfolio due on 1 October 2019.

Cash held as investment deposit relates to cash invested in a money market fund, which is invested in short-term AAA rated Sterling Investments. As the fund has a short maturity period, the investment has a high liquidity. The fund has £26.8 billion AUM, hence the Group's investment deposit represents an immaterial proportion of the fund.

## 20. Trade and other payables

	2019 £000s	2018 £000s
Trade payables	1,475	1,489
Accruals	1,109	1,277
VAT payable	3	3
Corporation tax payable	–	185
Deferred income	699	454
Deferred consideration	–	26
Other creditors	1,173	1,110
	<b>4,459</b>	<b>4,544</b>

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. For most suppliers interest is charged if payment is not made within the required terms. Thereafter, interest is chargeable on the outstanding balances at various rates. The Company has financial risk management policies in place to ensure that all payables are paid within the agreed credit timescale.

There is no significant difference between the fair value and carrying value of trade and other payables at the Statement of Financial Position date.

Corporation tax payable relates to liabilities in respect of pre-acquisition accounting periods of entities acquired in the course of an acquisition accounted for as an asset acquisition.

## 21. Borrowings

	2019 £000s	2018 £000s
Loans	110,868	52,922
Unamortised borrowing costs	(2,676)	(1,362)
	<b>108,192</b>	<b>51,560</b>
Current liability	373	257
Non-current liability	107,819	51,303
	<b>108,192</b>	<b>51,560</b>

The loans are repayable as follows:

Within one year	373	257
Between one and two years	388	265
Between three and five years	15,831	844
Over five years*	91,600	50,194
	<b>108,192</b>	<b>51,560</b>

\*£77.6m of this is due at the maturity date of the loan in 2043.

Movements in borrowings are:

	2019 £000s	2018 £000s
At beginning of period	51,560	–
Drawdown of facility	58,450	53,000
Loan costs	(1,478)	(1,376)
Amortisation of loan costs	164	14
Repayment of borrowings	(504)	(78)
At end of period	<b>108,192</b>	<b>51,560</b>

The table below lists the Group's borrowings:

Lender	Original facility £000s	Outstanding debt £000s	Maturity date	Annual interest rate %
Scottish Widows Ltd	53,000	52,610	Jun-43	3.4507 Fixed
Scottish Widows Ltd	40,000	39,820	Jun-43	3.4877 Fixed
Scottish Widows Ltd	4,000	3,988	Jun-43	3.2872 Fixed
National Westminster Bank Plc	14,450	14,450	Feb-22	1.50 over 3 month £ LIBOR
	111,450	110,868		

The Scottish Widows facility is secured by a first charge over retirement properties with a fair value of £213.86m.

The NatWest facility is secured by a first charge over Local Authority Housing properties with a fair value of £34.9m.

The fair value of borrowings held at amortised cost at 30 September 2019 was £124.9m (2018: £52.6m).

## 22. Derivative financial instruments

	2019 £000s	2018 £000s
Interest rate swap derivative contracts	89	–

The derivative contracts arise from interest rate swaps entered into in February 2019 to partially fix the £14.5m of debt secured on the Local Authority portfolio.

The notional principal amount of the interest rate swaps is £9,537,000 and the expiry date is 20 August 2021.

The contract rate the Group are paying for its interest rate swaps is 1.0580%.

The valuations of all derivatives held by the Group are classified as Level 2 in the IFRS 13 fair value hierarchy as they are based on observable inputs. There have been no transfers between levels of the fair value hierarchy during the year.

## 23. Share capital account

	Number of Ordinary 1p shares	£000s
At 30 September 2018 and 30 September 2019	180,324,377	1,803

The share capital account relates to amounts subscribed for share capital.

The Company has issued, at market value, nil (2018: 324,277) new Ordinary shares of 1p each to the Fund Manager.

### Rights, preferences and restrictions on shares

All Ordinary Shares carry equal rights, and no privileges are attached to any shares in the Company. All the shares are freely transferable, except as otherwise provided by law. The holders of Ordinary Shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

Treasury shares do not hold any voting rights.

# Notes to the Financial Statements

continued

## 24. Share premium account

	£000s
<b>At 30 September 2018 and 30 September 2019</b>	<b>108</b>

The share premium account relates to amounts subscribed for share capital in excess of nominal value.

## 25. Own shares reserve

	£000s
<b>At 30 September 2018</b>	<b>(5,199)</b>
Purchase of own shares	(3,884)
Transferred as part of Fund Management fee	461
<b>At 30 September 2019</b>	<b>(8,622)</b>

The own shares reserve relates to the value of shares purchased by the Company in excess of nominal value.

During the year ended 30 September 2019, the Company purchased 4,156,873 of its own 1p ordinary shares at a total gross cost of £3,904,714 (£3,884,837 cost of shares and £19,877 associated costs).

During the year, 503,814 1p Ordinary Shares were transferred from the own shares reserve to the Fund Manager, in lieu of the management fee in accordance with the Fund Management Agreement.

As at 30 September 2019, 9,304,729 (2018: 5,651,670) 1p Ordinary Shares are held by the Company.

## 26. Retained earnings

	£000s
<b>At 30 September 2018</b>	<b>186,887</b>
Profit for the period	13,236
Share based payment charge	461
Issue of management shares	(461)
Dividends	(7,698)
<b>At 30 September 2019</b>	<b>192,425</b>

Retained earnings incorporate all gains and losses and transactions with shareholders (e.g. dividends) not recognised elsewhere.

## 27. Group entities

The Group entities which are owned either directly by the Company or indirectly through a subsidiary undertaking are:

Name of entity	Percentage of ownership	Country of incorporation	Principal place of business	Principal activity
RHP Holdings Limited	100%	UK	UK	Holding company
The Retirement Housing Limited Partnership	100%	UK	UK	Property investment
ReSi Retirement Rentals Limited	100%	UK	UK	Property investment
ReSi Housing Limited	100%	UK	UK	Social housing Registered Provider
Wesley House (Freehold) Limited	100%	UK	UK	Property investment
Eaton Green (Freehold) Limited	100%	UK	UK	Property investment

Name of entity	Registered address
RHP Holdings Limited	21-26 Garlick Hill, London, EC4V 2AU
The Retirement Housing Limited Partnership	Glanville House, Frobisher Way, Taunton, Somerset, TA2 6BB
ReSi Retirement Rentals Limited	21-26 Garlick Hill, London, EC4V 2AU
ReSi Housing Limited	21-26 Garlick Hill, London, EC4V 2AU
Wesley House (Freehold) Limited	21-26 Garlick Hill, London, EC4V 2AU
Eaton Green (Freehold) Limited	21-26 Garlick Hill, London, EC4V 2AU

All group entities are UK tax resident.

The Company's subsidiaries Gaynes Hill Holdings Limited and Rayleigh Park Limited were dissolved on 5 April 2019.

## 28. Notes to the cash flow statement

The liabilities arising from financing activities are reconciled below:

	Borrowings due within one year (note 21) £000s	Borrowings due in more than one year (note 21) £000s	Fair value of interest rate swaps (note 12) £000s	Lease liabilities (note 30) £000s	Total £000s
At 1 October 2018	257	51,303	–	27,715	79,275
<i>Cash flows</i>					
Borrowings advanced	783	57,668	–	–	58,451
Borrowings repaid	(504)	–	–	–	(504)
Loan arrangement fees paid	(163)	(1,316)	–	–	(1,479)
Ground rent paid	–	–	–	(883)	(883)
<i>Non-cash flows</i>					
Amortisation of loan arrangement fees	–	164	–	–	164
Change in fair value of interest rate swaps	–	–	(89)	–	(89)
Recognition of headlease liabilities acquired	–	–	–	2,700	2,700
<b>At 30 September 2019</b>	<b>373</b>	<b>107,819</b>	<b>(89)</b>	<b>29,532</b>	<b>137,635</b>

## 29. Dividends

	2019 £000s	2018 £000s
<b>Amounts recognised as distributions to shareholders in the period:</b>		
1st interim dividend for the period ended 30 September 2018 of 0.75p per share	–	1,352
2nd interim dividend for the period ended 30 September 2018 of 0.75p per share	–	1,329
3rd interim dividend for the period ended 30 September 2018 of 0.75p per share	–	1,322
4th interim dividend for the year ended 30 September 2018 of 0.75p per share	1,284	–
1st interim dividend for the year ended 30 September 2019 of 1.25p per share	2,138	–
2nd interim dividend for the year ended 30 September 2019 of 1.25p per share	2,138	–
3rd interim dividend for the year ended 30 September 2019 of 1.25p per share	2,138	–
	<b>7,698</b>	<b>4,003</b>
<b>Amounts not recognised as distributions to shareholders in the period:</b>		
4th interim dividend for the year ended 30 September 2018 of 0.75p per share	–	1,283
4th interim dividend for the year ended 30 September 2019 of 1.25p per share	2,138	–
<b>Categorisation of dividends for UK tax purposes:</b>		
<i>Amounts recognised as distributions to shareholders in the period:</i>		
Property Income Distribution (PID)	4,810	661
Non-PID	2,888	3,342
	<b>7,698</b>	<b>4,003</b>

On 15 November 2018, the Company declared a fourth interim dividend of 0.75 pence per share for the period 1 July 2018 to 30 September 2018.

# Notes to the Financial Statements

continued

On 30 January 2019, the Company declared its first interim dividend of 1.25 pence per share for the period 1 October 2018 to 31 December 2018.

On 29 April 2019, the Company declared its second interim dividend of 1.25 pence per share for the period 1 January 2019 to 31 March 2019.

On 1 August 2019, the Company declared its third interim dividend of 1.25 pence per share for the period 1 April 2019 to 30 June 2019.

On 21 November 2019, the Company announced the declaration of a fourth interim dividend of 1.25 pence per share for the period 1 July 2019 to 30 September 2019 which will be payable on 10 January 2020 to Shareholders on the register at the close of business on 12 December 2019.

The Company intends to continue to pay dividends to shareholders on a quarterly basis in accordance with the REIT regime.

Dividends are not payable in respect of Treasury shares held.

## 30. Lease arrangements

### The Group as lessee

At 30 September 2019, the Group had outstanding commitments for future minimum lease payments under non-cancellable finance leases, which fall due as follows:

As at 30 September 2019	Less than one year £000s	Two to five years £000s	More than five years £000s	Total £000s
Minimum lease payments	934	3,736	123,432	128,102
Interest	–	(273)	(98,297)	(98,570)
Present value at 30 September 2019	934	3,463	25,135	29,532

As at 30 September 2018	Less than one year £000s	Two to five years £000s	More than five years £000s	Total £000s
Minimum lease payments	886	3,542	110,757	115,185
Interest	–	(258)	(87,212)	(87,470)
Present value at 30 September 2018	886	3,284	23,545	27,715

The above commitment is in respect of ground rents payable for properties held by the Group under leasehold. There are 2,189 properties (2018: 1,979 properties) held under leasehold with an average unexpired lease term of 130 years (2018: 126 years).

The majority of restrictions imposed are the covenants in place limiting tenancies to people of retirement age.

### The Group as lessor

The Group leases some of its investment properties under operating leases. At the balance sheet date, the Group had contracts with tenants for the following future aggregate minimum rentals receivable under non-cancellable operating leases:

	2019 £000s	2018 £000s
Within one year	4,039	3,584
Between one and five years	8,252	7,604
More than five years	17,404	5,485
	29,695	16,673

The total of contingent rents recognised as income during the period was £nil (2018: £nil).

The majority of leases are assured tenancy or assured shorthold tenancy agreements. The table above shows the minimum lease payments receivable under the assumption that all tenants terminate their leases at the earliest opportunity. However, assured tenancies are long-term agreements providing lifetime security of tenure to residents.

The leases in the licensed retirement homes portfolio are indefinite and would only be terminated in the event that the leaseholders of the relevant retirement development vote to no longer have a resident house manager living at their development.

The Group's Shared Ownership properties are let to Shared Owners on leases with an initial 130 year lease term.

Two of the Group's properties are let out on more traditional leases which account for approximately 10% of total rental income.

The table below shows our expected lease receivables, excluding future rent reviews, from existing leases based on historical turnover rates consistent with our assumptions for valuing the properties:

	2019 £000s	2018 £000s
Within one year	19,893	16,851
Between one and five years	52,606	44,680
More than five years	65,090	44,532
	137,589	106,063

### 31. Net asset value per share

The net asset value ("NAV") per share is calculated as the net assets of the Group attributable to shareholders divided by the number of Ordinary Shares in issue at the year end.

	2019 £000s	2018 £000s
Net assets	185,714	183,599
Ordinary shares in issue at period end (excluding shares held in treasury)	171,019,648	174,672,707
Basic NAV per share (pence)	108.6	105.1

### 32. Contingent liabilities and commitments

#### Commitments

On 30 March 2019, ReSI exchanged contracts to acquire 132 new build apartments, located at Clapham Park, in the London Borough of Lambeth, for a total acquisition cost of £60 million. The apartments are being purchased from Metropolitan Thames Valley Housing, one of the UK's largest Housing Associations, who will retain management of the apartments.

#### Contingent Liabilities

ReSI has received government grant funding of £0.95 million from the Greater London Authority (GLA) to support the delivery of Shared Ownership homes at Totteridge Place. In some circumstances, typically when a Shared Owner staircases, ReSI will be required to recycle the grant into the purchase of new properties within three years or to repay it to the GLA.

### 33. Related party disclosure

As defined by IAS 24 Related Party Disclosures, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

For the year ended 30 September 2019, the Directors of the Group are considered to be the key management personnel. Details of amounts paid to Directors for their services can be found within note 9, Directors' fees and expenses.

ReSI Capital Management Limited acts as alternative investment fund manager (the "Fund Manager"), in compliance with the provisions of the AIFMD, pursuant to the Fund Management Agreement. The Fund Manager has responsibility for the day-to-day management of the Company's assets in accordance with the Investment policy subject to the control and directions of the Board.

The Fund Management agreement is terminable on not less than 12 months' notice, such notice not to expire earlier than 12 July 2022 (the fifth anniversary of admission to the Official List of the UKLA and traded on the London Stock Exchange main market).

Details regarding the Fund Manager's entitlement to a management fee are shown in note 7.

For the year ended 30 September 2019, the Company incurred £1,842,505 (period ended 30 September 2018: £2,159,911) in respect of fund management fees and no amount was outstanding as at 30 September 2019 (2018: £nil). The above

fee was split between cash and equity as per the Fund Management Agreement with the cash equating to £1,381,880 (2018: £1,619,838) and the equity fee of £460,625 (2018: £540,074) being paid as 503,814 (2018: 567,858) Ordinary Shares at an average price of £0.92 per share (2018: £0.95 per share).

In addition, the Fund Manager was paid a fee, pursuant to the Fund Management Agreement, of £263,024 (2018: £320,447) in respect of its arrangement of borrowings for the Group.

During the period the Directors and the Fund Manager received dividends from the Company of £3,825 (2018: £2,063) and £8,437 (2018: £10,054) respectively.

### 34. Post balance sheet events

There are no post balance sheet events.

### 35. Financial instruments

The table below sets out the categorisation of the financial instruments held by the Group as at 30 September 2019. Borrowings held at amortised cost have a fair value of £124.9m. The carrying amount of other financial instruments approximates to their fair value.

	2019 £000s	2018 £000s
<b>Financial assets</b>		
<i>Loans and receivables</i>		
Trade and other receivables	331	926
Cash and cash deposits	26,205	11,796
	26,536	12,722
<b>Financial liabilities</b>		
<i>At amortised cost</i>		
Obligations under finance leases	29,532	27,715
Borrowings	108,192	51,560
Trade and other payables	3,757	4,356
	141,481	83,631
<i>At fair value through profit or loss</i>		
Interest rate swap derivative contracts	89	-
	141,570	83,631

The Group's activities expose it to a variety of financial risks: market risk, interest rate and inflation risk, credit risk, liquidity risk and capital risk management.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate limits and controls, and to monitor risks and adherence to limits. When considered appropriate the Group uses derivative financial instruments to hedge certain risk exposures.

# Notes to the Financial Statements

continued

Risk management policies and systems are reviewed regularly by the Board and Fund Manager to reflect changes in the market conditions and the Group's activities.

The exposure to each financial risk considered potentially material to the Group, how it arises and the policy for managing the risk is summarised below:

## a) Market risk

Market risk is the risk that changes in market prices will affect the Group's income or the value of its holding of financial instruments.

The Company's activities will expose it to the market risks associated with changes in property and rental values.

### Risk relating to investment in property

Investment in property is subject to varying degrees of risk. Some factors that affect the value of the investment in property include:

- changes in the general economic climate;
- changes in the general social environment;
- competition from available properties;
- obsolescence; and
- Government regulations, including planning, environmental and tax laws.

Variations in the above factors can affect the valuation of assets held by the Company and the rental values it can achieve, and as a result can influence the financial performance of the Company.

The Group mitigates these risks by entering into long term management or rental/letting agreements to ensure any fall in the property market should not result in significant impairment to rental cashflows. In addition, the Group focuses on areas of the market with limited and ideally countercyclical exposure to the wider property market.

As the Group operates only in the United Kingdom it is not exposed to currency risk.

## b) Interest rate and inflation risks

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The interest rate exposure profile of the Group's financial assets and liabilities as at 30 September 2019 and 30 September 2018 were:

	Nil rate assets and liabilities £000s	Floating rate assets £000s	Fixed rate liability £000s	Floating rate liability £000s	Total £000s
<b>2019</b>					
Trade and other receivables	331	–	–	–	331
Cash and cash equivalents	–	26,205	–	–	26,205
Trade and other payables	(3,757)	–	–	–	(3,757)
Interest rate swap derivative contracts	–	–	(89)	–	(89)
Bank borrowings	–	–	(94,018)	(14,175)	(108,193)
Obligations under finance leases	–	–	(29,532)	–	(29,532)
	(3,426)	26,205	(123,639)	(14,175)	(115,035)



	Nil rate assets and liabilities £000s	Floating rate assets £000s	Fixed rate liability £000s	Floating rate liability £000s	Total £000s
<b>2018</b>					
Trade and other receivables	926	–	–	–	926
Cash and cash equivalents	–	11,796	–	–	11,796
Trade and other payables	(4,356)	–	–	–	(4,356)
Interest rate swap derivative contracts	–	–	–	–	–
Bank borrowings	–	–	(51,560)	–	(51,560)
Obligations under finance leases	–	–	(27,715)	–	(27,715)
	(3,430)	11,796	(79,275)	–	(70,909)

The Group has primarily financed its activities with fixed rate debt, which reduces the Group's exposure to changes in market interest rates. If market interest rates increased by 1% the Group's finance costs for existing debt facilities would increase by £49,130. Conversely, if market interest rates decreased by 1% the Group's finance costs for existing debt facilities would decrease by £49,130.

The Group intends to finance its activities with fixed, floating rate or inflation-linked debt. Changes in the general level of interest rates and inflation can affect the Group's profitability by affecting the spread between, amongst other things, the income on its assets and the expense of its interest-bearing liabilities, the value of its interest-earning assets and its ability to realise gains from the sale of assets should this be desirable.

The Fund Manager intends to match debt cash flows to those of the underlying assets and therefore does not expect to utilise derivatives. However, to the extent this is not possible, the Group may utilise derivatives for full or partial inflation or interest rate hedging or otherwise seek to mitigate the risk of inflation or interest rate movements. The Group will closely manage any derivatives, in particular with regard to liquidity and counterparty risks. The Group will only use derivatives for risk management and not for speculative purposes.

### c) Credit risk

Credit risk is the risk of financial loss to the Group if a counterparty fails to meet its contractual obligations and arises principally from the Group's tenants (in respect of trade receivables arising under operating leases), banks and money market funds (as holders of the Group's cash deposits).

#### Exposure to credit risk

	2019 £000s	2018 £000s
Trade and other receivables	331	926
Cash and cash equivalents	26,205	11,796
	<b>26,536</b>	<b>12,722</b>

The Group engages third parties to provide day-to-day management of its properties including letting and collection of underlying rent from residents or shared owners. The Group mitigates void risk by acquiring residential asset classes with a demonstrable strong demand or the tenants are part owners of the properties (as exhibited by retirement, sub-market rental assets or shared ownership properties).

The credit risk of cash and cash equivalents is limited due to cash being held at banks or money market funds considered credit worthy by the Group's fund manager, with high credit ratings assigned by international credit rating agencies.

Note 30 details the Group's exposure as a lessor in respect of future minimum rentals receivable.

# Notes to the Financial Statements

continued

## d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Group manages its liquidity and funding risks by considering cash flow forecasts and ensuring sufficient cash balances are held within the Group to meet future needs. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of financing through appropriate and adequate credit lines, and the ability of customers to settle obligations within normal terms of credit. The Company ensures, through forecasting of capital requirements, that adequate cash is available.

The following table details the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities, including future interest payments, based on the earliest date on which the Group can be required to pay,

	Less than one year £000s	Two to five years £000s	More than five years £000s	Total £000s
<b>2019</b>				
Borrowings	373	16,219	91,600	108,192
Interest on borrowings	3,691	13,453	55,964	73,108
Obligations under finance leases	934	3,736	123,432	128,102
Payables and accruals	4,459	–	–	4,459
	9,457	33,408	270,996	313,861
<b>2018</b>				
Borrowings	257	1,109	50,194	51,560
Interest on borrowings	1,821	7,176	32,183	41,180
Obligations under finance leases	886	3,542	110,757	115,185
Payables and accruals	4,544	–	–	4,544
	7,508	11,827	193,134	212,469

## e) Capital risk management

The Group manages its capital to ensure the entities in the Group will be able to continue as a going concern whilst maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt (note 21), cash and cash equivalents (note 19) and equity attributable to the shareholders of the Company (comprising share capital, retained earnings and the other reserves as referred in notes 23 to 26).

The Group is not subject to externally imposed capital requirements under the AIFMD regime.

The Group's management reviews the capital structure on a regular basis in conjunction with the Board. As part of this review management considers the cost of capital, risks

associated with each class of capital and debt and the amount of any dividends to shareholders.

	2019 £000s	2018 £000s
Obligations under finance leases	29,532	27,715
Borrowings	108,192	51,560
Cash and cash equivalents	(26,205)	(11,796)
Net debt	111,519	67,479
Equity attributable equity holders	185,714	183,599
Net debt to equity ratio	0.60	0.37
Borrowings excluding finance lease liability	108,192	51,560
Total assets less finance lease gross up	298,454	239,703
GAV leverage ratio	0.36	0.22

The GAV leverage ratio has been presented to enable a comparison of the Group's borrowings as a proportion of Gross Assets as at 30 September 2019 to its medium term target GAV leverage ratio of 0.50.

## 36. Supplemental financial information

### Net rental yield

The net yield on the Group's historical cost of investment property represents the unlevered rental income return on the Group's capital deployed into acquisition of investment properties.

	2019 £m	2018 £m
Annualised net rental income at balance sheet date	11.2	10.5
Historical cost of investment property	237.1	210
Historical cost of investments not yet income producing	(11.4)	–
Historical cost of income producing investment properties	225.7	10.4
Net yield	5.0%	5.0%

# Company Statement of Financial Position

as at 30 September 2019

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	Note	2019 £000s	2018 £000s
<b>Non-current assets</b>			
Investment in subsidiary undertakings	8	170,586	133,420
<b>Total non-current assets</b>		<b>170,586</b>	<b>133,420</b>
<b>Current assets</b>			
Trade and other receivables	9	26,043	37,810
Cash and cash equivalents	10	21,491	9,415
<b>Total current assets</b>		<b>47,534</b>	<b>47,225</b>
<b>Total assets</b>		<b>218,120</b>	<b>180,645</b>
<b>Current liabilities</b>			
Trade and other payables	11	36,497	715
<b>Total current liabilities</b>		<b>36,497</b>	<b>715</b>
<b>Net assets/(liabilities)</b>		<b>181,623</b>	<b>179,930</b>
<b>Equity</b>			
Share capital	12	1,803	1,803
Share premium	13	108	108
Own shares reserve	14	(8,622)	(5,199)
Retained earnings		188,334	183,218
<b>Total interests</b>		<b>181,623</b>	<b>179,930</b>
<b>Total equity</b>		<b>181,623</b>	<b>179,930</b>

The notes on pages 75 to 79 form part of these financial statements.

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own profit and loss account in these financial statements. The profit attributable to the Parent Company for the year ended 30 September 2019 amounted to £12.8 million (2018: £12.4 million).

These financial statements were approved and authorised for issue by the Board of Directors on 20 November 2019 and signed on its behalf by:



**Robert Whiteman**  
Chairman

20 November 2019

# Company Statement of Changes in Equity

for the year ended 30 September 2019

	Share capital £000s	Share premium £000s	Own shares reserve £000s	Retained earnings £000s	Total £000s
<b>Balance at 11 July 2017</b>	–	–	–	(28)	(28)
Profit for the period	–	–	–	12,442	12,442
Other comprehensive income	–	–	–	–	–
<b>Total comprehensive income</b>	–	–	–	12,442	12,442
<b>Contributions by and distributions to shareholders</b>					
Issue of shares	1,800	178,200	–	–	180,000
Formation and issue costs paid	–	(3,600)	–	–	(3,600)
Issue of management shares	3	315	222	(540)	–
Share based payment charge	–	–	–	540	540
Cancellation of share premium	–	(174,807)	–	174,807	–
Purchase of own shares	–	–	(5,421)	–	(5,421)
Dividend paid	–	–	–	(4,003)	(4,003)
<b>Balance at 30 September 2018</b>	<b>1,803</b>	<b>108</b>	<b>(5,199)</b>	<b>183,218</b>	<b>179,930</b>
Profit for the period	–	–	–	12,814	12,814
Other comprehensive income	–	–	–	–	–
<b>Total comprehensive income</b>	–	–	–	12,814	12,814
<b>Contributions by and distributions to shareholders</b>					
Issue of management shares	–	–	461	(461)	–
Share based payment charge	–	–	–	461	461
Purchase of own shares	–	–	(3,884)	–	(3,884)
Dividends paid	–	–	–	(7,698)	(7,698)
<b>Balance at 30 September 2019</b>	<b>1,803</b>	<b>108</b>	<b>(8,622)</b>	<b>188,334</b>	<b>181,623</b>

The notes on pages 75 to 79 form part of these financial statements.

# Notes to the Company Financial Statements

## 1. Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 100 Application of Financial Reporting Requirements ("FRS 100") and Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

## 2. Disclosure exemptions adopted

In preparing these financial statements the Company has taken advantage of all disclosure exemptions conferred by FRS 101. Therefore these financial statements do not include:

- Certain comparative information as otherwise required by EU endorsed IFRS;
- Certain disclosures regarding the Company's capital;
- A statement of cash flows;
- The effect of future accounting standards not yet adopted;
- The disclosure of the remuneration of key management personnel; and
- Disclosure of related party transactions with other wholly owned members of Residential Secure Income plc.

In addition, and in accordance with FRS 101, further disclosure exemptions have been adopted because equivalent disclosures are included in the Company's consolidated financial statements. These financial statements do not include certain disclosures in respect of:

- Financial instruments; and
- Fair value measurement other than certain disclosures required as a result of recording financial instruments at fair value

## 3. Changes to accounting standards and interpretations

### New standards adopted during the year

The following new accounting standards, interpretations and amendments, endorsed by the EU were effective for the first time for the company's 30 September 2019 year end and had no material impact on the financial statements:

- IFRS 9 Financial Instruments (effective from 1 October 2018) – the standard applies to classification and measurement of financial assets and financial liabilities, impairment provisioning and hedge accounting.

The company adopted the expected credit loss model when calculating impairment losses on its financial assets measured at amortised costs (such as loans to group companies). This resulted in increased judgement being required in order to assess the requirement for an impairment provision due to the need to factor in forward looking information when estimating the appropriate amount of provisions. No material impairment provisions were recognised as a result of the adoption of IFRS 9.

## 4. Significant accounting policies

The significant accounting policies applied in the preparation of the financial statements are set out below. The policies have been consistently applied throughout the period.

### a) Basis of accounting

These financial statements have been presented as required by the Companies Act 2006 and have been prepared under the historical cost convention and in accordance with applicable Accounting Standards and policies in the United Kingdom ("UK GAAP").

### b) Currency

The Company financial information is presented in Sterling which is also the Company's functional currency and all values are rounded to the nearest thousand (£000), except where otherwise indicated.

### c) Investments in subsidiary undertakings in the Company Financial Statements

Investments in subsidiary undertakings are stated at cost less any provision for impairment in value.

### d) Share issue costs

The costs of issuing or reacquiring equity instruments (other than in a business combination) are accounted for as a reduction to share premium to the extent that share premium has arisen on the related share issue.

### e) Finance income

Finance income comprises interest receivable on funds invested and is recognised in profit and loss as it accrues, using the effective interest method.

### f) Taxation

Taxation on the profit or loss for the period not exempt under UK REIT regulations would comprise of current and deferred tax. Tax would be recognised in the Statement of Comprehensive Income except to the extent that it relates to items recognised as direct movement in equity, in which case it would be recognised as a direct movement in equity. Current tax is expected tax payable on any non-REIT taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax is provided in full using the balance sheet liability method on timing differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the asset is realised or the liability is settled.

No provision is made for timing differences (i) arising on the initial recognition of assets or liabilities, other than on a business combination, that affect neither accounting nor taxable profit and (ii) relating to investments in subsidiaries to the extent that they will not reverse in the foreseeable future.

### g) Dividend payable to shareholders

Equity dividends are recognised when they become legally payable which for the final dividends is the date of approval by the members. Interim dividends are recognised when paid.

# Notes to the Company Financial Statements

continued

## h) Financial instruments

### Financial assets

#### Recognition of financial assets

All financial assets are recognised on a trade date which is the date when the Company becomes a party to the contractual provisions of the instrument.

#### Initial measurement and classification of financial assets

Financial assets are classified into the following categories: 'financial assets at fair value through profit or loss' and 'financial assets at amortised cost'. The classification depends on the business model in which the asset is managed and on the cashflows associated with that asset.

Financial assets are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

#### Fair value through profit or loss

This category comprises in-the-money derivatives and out-of-money derivatives where the time value offsets the negative intrinsic value (see "Financial liabilities" section for out-of-money derivatives classified as liabilities). They are carried in the Consolidated Statement of Financial Position at fair value with changes in fair value recognised in the Group Statement of Comprehensive Income in the finance income or expense line.

At 30 September 2019 the Company had the following non-derivative financial assets which are classified as financial assets at amortised cost:

#### Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank (including investments in money-market funds) and short-term deposits with an original maturity of three months or less.

#### Trade and other receivables

Trade and other receivables are recognised at their original invoiced value. Where the time value of money is material, receivables is discounted and then held at amortised cost.

#### Impairment of financial assets

The Company applies the IFRS 9 simplified approach to measuring the expected credit losses for trade and other receivables whereby the allowance or provision for all trade receivables is based on the lifetime expected credit losses ("ECLs").

The Company applies the general approach for initial recognition and subsequent measurement of expected credit loss provisions for the loan receivable and other receivables which have maturities of 12 months or more and have a significant finance component.

This approach comprises of a three-stage approach to evaluating expected credit losses. These stages are classified as follows:

#### Stage 1

Twelve-month expected credit losses are recognised in profit or loss at initial recognition and a loss allowance is established. For financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk at the reporting date, the loss allowance for 12-month expected credit losses is maintained and updated for changes in amount. Interest revenue is calculated on the gross carrying amount of the asset (i.e. without reduction for expected credit losses).

#### Stage 2

If the credit risk increases significantly and the resulting credit quality is not considered to be low credit risk, full lifetime expected losses are recognised and includes those financial instruments that do not have objective evidence of a credit loss event. Interest revenue is still calculated on the gross carrying amount of the asset.

#### Stage 3

If the credit risk of a financial asset increases to the point that it is considered credit impaired (there is objective evidence of impairment at the reporting date), lifetime expected credit losses continue to be recognised. For financial assets in this stage, lifetime expected credit losses will generally be individually assessed. Interest revenue is calculated on the amortised cost net carrying amount (amortised cost less impairment).

### De-recognition of financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership to another entity. If any interest in a transferred asset is retained then the Company recognises its retained interest in the asset and associated liabilities.

### Financial liabilities

#### Recognition of financial liabilities

All financial liabilities are recognised on the date when the Company becomes a party to the contractual provisions of the instrument.

#### Initial measurement and classification of financial liabilities

Financial liabilities are classified into the following categories: 'financial liabilities at fair value through profit or loss' and 'other financial liabilities'. The classification depends on the nature and purpose of the financial liabilities and is determined at the time of initial recognition.

Financial liabilities are initially measured at fair value, net of transaction costs, except for those financial liabilities classified as at fair value through profit or loss, which are initially measured at fair value.

#### Fair value through profit or loss

This category comprises out-of-the-money derivatives where the time value does not offset the negative intrinsic value (see "Financial assets" section for in-the-money derivatives and out-of-money derivatives where the time value offsets the

negative intrinsic value). They are carried in the Consolidated Statement of Financial Position at fair value with changes in fair value recognised in the Group Statement of Comprehensive Income in the finance income or expense line.

At 30 September 2019 the Company had the following non-derivative financial liabilities which are classified as other financial liabilities:

#### Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently held at amortised cost.

#### De-recognition of financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

### 5. Significant accounting judgements and estimates

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

#### Impairment of fixed asset investments

The Directors are required to review the carrying amounts of its investments to determine whether there are any indicators for impairment. After assessing the carrying amounts of the Company's investments, it was determined that impairment indicators no longer existed at the year-end for some of the investments and so a reversal of impairment loss should be recognised.

### 6. Fees paid to the Company's auditor

	2019 £000s	2018 £000s
Audit fees	42	34
Audit related services	36	25
Non-audit services	–	60
<b>Total fees</b>	<b>78</b>	<b>119</b>

### 7. Dividends paid

	2019 £000s	2018 £000s
<b>Amounts recognised as distributions to shareholders in the period:</b>		
1st interim dividend for the period ended 30 September 2018 of 0.75p per share	–	1,352
2nd interim dividend for the period ended 30 September 2018 of 0.75p per share	–	1,329
3rd interim dividend for the period ended 30 September 2018 of 0.75p per share	–	1,322
4th interim dividend for the period ended 30 September 2018 of 0.75p per share	1,284	–
1st interim dividend for the year ended 30 September 2019 of 1.25p per share	2,138	–
2nd interim dividend for the year ended 30 September 2019 of 1.25p per share	2,138	–
3rd interim dividend for the year ended 30 September 2019 of 1.25p per share	2,138	–
	<b>7,698</b>	<b>4,003</b>

#### Amounts not recognised as distributions to shareholders in the period:

4th interim dividend for the period ended 30 September 2018 of 0.75p per share	–	1,283
4th interim dividend for the year ended 30 September 2019 of 1.25p per share	2,138	–

#### Categorisation of dividends for UK tax purposes:

<i>Amounts recognised as distributions to shareholders in the period:</i>		
Property Income Distribution (PID)	4,810	661
Non-PID	2,888	3,342
	<b>7,698</b>	<b>4,003</b>

On 15 November 2018, the Company declared a fourth interim dividend of 0.75 pence per share for the period 1 July 2018 to 30 September 2018.

# Notes to the Company Financial Statements

continued

On 30 January 2019, the Company declared its first interim dividend of 1.25 pence per share for the period 1 October 2018 to 31 December 2018.

On 29 April 2019, the Company declared its second interim dividend of 1.25 pence per share for the period 1 January 2019 to 31 March 2019.

On 1 August 2019, the Company declared its third interim dividend of 1.25 pence per share for the period 1 April 2019 to 30 June 2019.

On 19 November 2019, the Company announced the declaration of a fourth interim dividend of 1.25 pence per share for the period 1 July 2019 to 30 September 2019 which will be payable on 10 January 2020 to Shareholders on the register at the close of business on 12 December 2019.

The Company intends to continue to pay dividends to shareholders on a quarterly basis in accordance with the REIT regime.

## 8. Investments

	2019 £000s	2018 £000s
At beginning of period	133,420	–
Additions	35,218	167,476
Impairment reversal/(impairment)	1,948	(34,056)
At end of period	170,586	133,420

Investments are subject to annual review for impairment indicators.

The Company had the following subsidiary undertakings at 30 September 2019:

Name of entity	Percentage of ownership	Country of incorporation	Principal place of business	Principal activity
RHP Holdings Limited	100%	UK	UK	Holding company
The Retirement Housing Limited Partnership	100%	UK	UK	Property investment
ReSi Retirement Rentals Limited	100%	UK	UK	Property investment
ReSi Housing Limited	100%	UK	UK	Social housing Registered Provider
Wesley House (Freehold) Limited	100%	UK	UK	Property investment
Eaton Green (Freehold) Limited	100%	UK	UK	Property investment

Name of entity	Registered address
RHP Holdings Limited	21-26 Garlick Hill, London, EC4V 2AU
The Retirement Housing Limited Partnership	Glanville House, Frobisher Way, Taunton, Somerset, TA2 6BB
ReSi Retirement Rentals Limited	21-26 Garlick Hill, London, EC4V 2AU
ReSi Housing Limited	21-26 Garlick Hill, London, EC4V 2AU
Wesley House (Freehold) Limited	21-26 Garlick Hill, London, EC4V 2AU
Eaton Green (Freehold) Limited	21-26 Garlick Hill, London, EC4V 2AU

All group entities are UK tax resident.

The Company's subsidiaries Gaynes Hill Holdings Limited and Rayleigh Park Limited were dissolved 5 April 2019.

## 9. Trade and other receivables

	2019 £000s	2018 £000s
Amounts due from group undertakings	19,521	37,727
Prepayments	154	59
Other debtors	6,368	24
	26,043	37,810

Amounts due from subsidiary undertakings are unsecured, interest free and repayable on demand.

All amounts fall due for repayment within one year.

## 10. Cash and cash equivalents

	2019 £000s	2018 £000s
Cash at bank	21,489	9,414
Cash held as investment deposit	2	1
	21,491	9,415

Cash held as investment deposit relates to cash invested in a money market fund, which is invested in short-term AAA rated Sterling Investments. As the fund has a short maturity period, the investment has a high liquidity. The fund has £26.8 billion AUM, hence the Group's investment deposit represents an immaterial proportion of the fund.



## 11. Trade and other payables

	2018 £000s	2017 £000s
Amounts due to group undertakings	36,150	–
Trade payables	157	198
Accruals	190	517
	<b>36,497</b>	<b>715</b>

Amounts due to group undertakings are unsecured, interest free and repayable on demand.

## 12. Share capital

	Number of ordinary 1p shares	£000s
<b>At 30 September 2018 and 30 September 2019</b>	180,324,377	1,803

The share capital account relates to amounts subscribed for share capital.

The Company has issued, at market value, nil (2018: 324,277) new Ordinary shares of 1p each to the Fund Manager.

### Rights, preferences and restrictions on shares

All Ordinary Shares carry equal rights, and no privileges are attached to any shares in the Company. All the shares are freely transferable, except as otherwise provided by law. The holders of Ordinary Shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

Treasury shares do not hold any voting rights.

## 13. Share premium

	£000s
<b>At 30 September 2018 and 30 September 2019</b>	108

The share premium account relates to amounts subscribed for share capital in excess of nominal value.

## 14. Own share reserve

	£000s
<b>At 30 September 2018</b>	(5,199)
Purchase of own shares	(3,884)
Transferred as part of Fund Management fee	461
<b>At 30 September 2019</b>	<b>(8,622)</b>

The own shares reserve relates to the value of shares purchased by the Company in excess of nominal value.

During the year ended 30 September 2019, the Company purchased 4,156,873 of its own 1p ordinary shares at a total gross cost of £3,904,714 (£3,884,837 cost of shares and £19,877 associated costs).

During the year, 503,814 1p Ordinary Shares were transferred from the own shares reserve to the Fund Manager, in lieu of the management fee in accordance with the Fund Management Agreement.

As at 30 September 2019, 9,304,729 (2018: £5,651,670) 1p Ordinary Shares are held by the Company.

## 15. Related party transactions

The Company has taken advantage of the exemption not to disclose transactions with other members of the Group as the Company's own financial statements are presented together with its consolidated financial statements. For all other related party transactions please make reference to note 33 of the Group accounts

# Glossary

<b>Administrator</b>	The Company's administrator from time to time, the current such administrator being MGR Weston Kay LLP.
<b>AIC</b>	Association of Investment Companies.
<b>Alternative Investment Fund or "AIF"</b>	An investment vehicle under AIFMD. Under AIFMD (see below) the Company is classified as an AIF.
<b>Alternative Investment Fund Managers Directive or "AIFMD"</b>	A European Union directive which came into force on 22 July 2013 and has been implemented in the UK.
<b>Annual General Meeting or "AGM"</b>	A meeting held once a year which shareholders can attend and where they can vote on resolutions to be put forward at the meeting and ask directors questions about the company in which they are invested.
<b>Articles or Articles of Association</b>	Means the articles of association of the Company.
<b>Company Secretary</b>	The Company's company secretary from time to time, the current such company secretary being PraxisIFM Fund Services (UK) Limited.
<b>Discount</b>	The amount, expressed as a percentage, by which the share price is less than the net asset value per share.
<b>Depository</b>	Certain AIFs must appoint depositaries under the requirements of AIFMD. A depository's duties include, inter alia, safekeeping of assets, oversight and cash monitoring. The Company's current depository is Thompson Taraz Depository Limited.
<b>Dividend</b>	Income receivable from an investment in shares.
<b>Ex-dividend date</b>	The date from which you are not entitled to receive a dividend which has been declared and is due to be paid to shareholders.
<b>Financial Conduct Authority or "FCA"</b>	The independent body that regulates the financial services industry in the UK.
<b>Functional Home</b>	Means both a Unit and an aggregation of multiple Units offering elderly care facilities, assisted living facilities, sheltered housing or supported housing that are made available, by a Tenant, Occupant or Nominator (as the case may be) to a Resident/Residents.
<b>Fund Manager</b>	Means ReSI Capital Management Limited, a company incorporated in England and Wales with company number 07588964 in its capacity as Fund Manager to the Company.
<b>Gearing</b>	A way to magnify income and capital returns, but which can also magnify losses. A bank loan is a common method of gearing.
<b>Housing Association</b>	Means a regulated independent society, body of trustees or company established for the purpose of providing social housing.
<b>Investment company</b>	A company formed to invest in a diversified portfolio of assets.
<b>Issue Price</b>	Means 100 pence per Ordinary Share.
<b>Leverage</b>	<p>An alternative word for "Gearing".</p> <p>Under AIFMD, leverage is any method by which the exposure of an AIF is increased through borrowing of cash or securities or leverage embedded in derivative positions.</p> <p>Under AIFMD, leverage is broadly similar to gearing, but is expressed as a ratio between the assets (excluding borrowings) and the net assets (after taking account of borrowing). Under the gross method, exposure represents the sum of the Company's positions after deduction of cash balances, without taking account of any hedging or netting arrangements. Under the commitment method, exposure is calculated without the deduction of cash balances and after certain hedging and netting positions are offset against each other.</p>

<b>Liquidity</b>	The extent to which investments can be sold at short notice.
<b>Market Rental Home</b>	Means both a Unit of residential accommodation and an accommodation block comprising multiple Units facilities that is/are made available, by a Tenant, Occupant or Nominator, to a Resident/Residents at a market rent.
<b>Net assets</b>	Means the net asset value of the Company as a whole on the relevant date calculated in accordance with the Company's normal accounting policies.
<b>Net asset value (NAV) per Ordinary Share</b>	Means the net asset value of the Company on the relevant date calculated in accordance with the Company's normal accounting policies divided by the total number of Ordinary Shares then in issue.
<b>Non PID dividend</b>	Means a dividend paid by the Company that is not a PID.
<b>Ongoing charges</b>	A measure, expressed as a percentage of average net assets, of the regular, recurring annual costs of running an investment company.
<b>Ordinary Shares</b>	The Company's Ordinary Shares of 1p each.
<b>PID</b>	Means a distribution referred to in section 548(1) or 548(3) of the CTA 2010, being a dividend or distribution paid by the Company in respect of profits or gains of the Property Rental Business of the Group (other than gains arising to non-UK resident Group companies) arising at a time when the Group is a REIT insofar as they derive from the Group's Property Rental Business.
<b>Portfolio</b>	A collection of different investments held in order to deliver returns to shareholders and to spread risk.
<b>Premium</b>	The amount, expressed as a percentage, by which the share price is more than the net asset value per share.
<b>Property Rental Business</b>	Means a Property Rental Business fulfilling the conditions in section 529 of the CTA 2010.
<b>REIT</b>	Real estate investment trust.
<b>Rental Agreement</b>	comprise Leases, Occupancy Agreements and Nominations Agreements.
<b>Reputable Care Provider</b>	Means a Statutory Registered Provider or other private entity in the business of building, managing and/or operating Functional Homes in the United Kingdom that the Fund Manager considers reputable in light of its investment grade equivalent debt strategy.
<b>Share buyback</b>	A purchase of a company's own shares. Shares can either be bought back for cancellation or held in treasury.
<b>Share price</b>	The price of a share as determined by a relevant stock market.
<b>Shared Owner</b>	Means the part owner of a Shared Ownership Home that occupies such Shared Ownership Home in return for the payment of rent to the co-owner.
<b>Sub-Market Rental Home</b>	Means a Unit of residential accommodation that is made available, by a Tenant, Occupant or Nominator, to a Resident to rent at a level below the local market rent.
<b>Total return</b>	A measure of performance that takes into account both income and capital returns.
<b>Treasury shares</b>	A company's own shares which are available to be sold by a company to raise funds.

# Company Information

## Shareholder Information

### Directors

Robert Whiteman (Non-executive Chairman)  
Robert Blackburn Gray (Non-executive Director)  
John Carleton (Non-executive Director)  
Mike Emmerich (Non-executive Director)

### Registered Office

Mermaid House  
Puddle Dock  
London  
ECV4 3DB

### Company Information

Company Registration Number: 10683026  
Incorporated in the United Kingdom

### Fund Manager

ReSI Capital Management Limited  
21 – 26 Garlick Hill  
London  
EC4V 2AU

### Corporate Broker

Jefferies International Limited  
100 Bishopsgate  
London  
EC2N 4JL

### Legal and Tax Adviser

Norton Rose Fulbright LLP  
3 More London Riverside  
London  
SE1 2AQ

### Tax Adviser

Ernst & Young LLP  
1 More London Riverside  
London  
SE1 2AF

### Depositary

Thompson Taraz LLP  
47 Park Lane  
Mayfair  
London  
W1K 1PR

### Administrator

MGR Weston Kay LLP  
55 Loudoun Road  
St John's Wood  
London  
NW8 0DL

### Company Secretary

PraxisIFM Fund Services (UK)Limited  
Mermaid House  
2 Puddle Dock  
London  
EC4V 3DB

### Registrar

Link Market Services Limited  
The Registry  
34 Beckenham Road  
Beckenham  
Kent  
BR3 4TU

### Auditors

BDO LLP  
55 Baker Street  
London  
W1U 7EU

### Public Relations Adviser

FTI Consulting  
200 Aldersgate  
Aldersgate Street  
London  
EC1A 4HD

### Valuers

Savills (UK) Limited  
33 Margaret Street  
London  
W1G 0JD