

Heylo Housing Secured Bond Plc

Unaudited Half Year Financial Statements

6 Months' Period Ended

31 March 2021

Company Number 11222614

Heylo Housing Secured Bond Plc

Company Information

| | |
|--------------------------|--|
| Directors | J P Conway A W Géczy G P C Mackay |
| Company secretary | Gravitas Company Secretarial Services Limited |
| Registered number | 11222614 |
| Registered office | 5th Floor One New Change London United Kingdom EC4M 9AF |
| Bankers | HSBC UK 69 Pall Mall London SW1Y 5EY |
| Solicitors | Pinsent Masons LLP 30 Crown Place London EC2A 4ES |

Heylo Housing Secured Bond Plc

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Heylo Housing Secured Bond Plc

Strategic Report For the Half Year Ended 31 March 2021

Introduction

The Directors present their Strategic Report of Heylo Housing Secured Bond Plc ("the Company" or "HHSB") for the unaudited half year ended 31 March 2021.

Business review

The Company is wholly owned by Heylo Housing Group Limited ("The Group"), the ultimate parent company of the Heylo Group companies.

The parent oversees the activities of each Heylo Group company. HHSB is a property investment company that acquires residential properties that it leases to Heylo Housing Registered Provider Limited ("HHRP"), a fellow subsidiary, which in turn on leases those properties on a part buy – part rent basis to the Heylo Group's customers.

HHSB was established in 2018 and was awarded Investment Partner status by Homes England to participate in the Shared Ownership and Affordable Homes Programme 2016-2021 ("SOAHP"). As at 31 March 2021, the company has 105 properties, of which 7 via the Your Home product and 98 new build properties from housebuilders, with associated grant received of £2.6m.

HHRP, is a registered provider of social housing with the Regulator of Social Housing (registration number 4668).

Principal risks and uncertainties

The management of the business and the nature of the Company's strategy are subject to a number of risks. The directors have set out below the principal risks facing the business.

The directors are of the opinion that the risk management processes adopted, which involve review, monitoring, and where possible, the mitigation of the risks identified below, are appropriate to the business.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The rental income from the property portfolio is due from many individual occupiers through HHRP. The Company reviews the creditworthiness of potential tenants prior to entering into contractual arrangements. Every occupier is assessed for affordability in accordance with the guidance from Homes England before entering into a lease.

Provision is made in full where recovery of financial assets is, in the opinion of the directors, significantly uncertain.

(b) Interest rate cash flow risk

Interest rate cash flow risk is the risk that the future cash flows of the Company's financial instruments will fluctuate because of changes in market interest rates. The Company has no direct exposure to interest rates as all amounts owed to external bondholders are linked to inflation rather than interest rates. The Company's rental income streams are linked to inflation and so should move proportionate to the payments due under the Company's financial instruments. In addition, and as further mitigation, rental income would not be impacted by a fall in the Retail Price Index (RPI). The Company further manages this risk by monitoring cash flow projections on a regular basis to ensure that funds or appropriate facilities are available to be drawn upon as necessary.

Heylo Housing Secured Bond Plc

Strategic Report (continued) For the Half Year Ended 31 March 2021

Principal risks and uncertainties (continued)

(c) Capital risk management

The Company manages share capital, consisting of ordinary shares as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern. The capital structure will continue to be determined by ongoing funding requirements.

(d) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company has issued bonds and pays both interest and principal payments to its bondholders. The Company has granted security over its property portfolio in support of these bonds. The Company's borrowings are repayable on the relevant maturity of the bonds and accordingly the Company manages any refinance risk at maturity. A significant reduction in the value of the property portfolio or in the rental collection could impact on the Company's financial covenants. The Company aims to mitigate liquidity risk by operating with headroom to these covenants, by adhering to strict affordability criteria and through regular monitoring of its cash flow forecasts.

(e) Covid-19

The pandemic has presented a risk to the health and safety of our customers, employees and house builders. The Company has prioritised the health and safety and ensured working practices have been updated and aligned with the latest guidance from the Government and Public Health Authorities. Despite the economic uncertainty and challenges of Covid-19, the Company believes that its liquidity position, its business model, diversified portfolio and its focus on risk mitigation combined with operational cash and funding reserves, offer a significant degree of protection to the business.

S172 statement: Directors duty to promote the success of the Company

Engagement with key stakeholders

Suppliers

The Company depends on the capability and performance of their suppliers, contractors, and other partners such as small businesses to help deliver the services needed to facilitate daily operations and to provide a professional service to our customers. The Company is focused on working with reputable suppliers that adopt the highest governance and employment practices in their organisations. The Company recognises the importance of complying with contractual terms and conditions in relation to payment terms and paying suppliers on time.

Customers

Communications

Heylo communicates with customers in the following ways:

- Direct staff contact via email, direct dial and a customer call centre to manage routine enquiries ranging from sales through to post sale lease and property enquiries.
- Welcome and induction materials for new customers.
- Website FAQs and info email addresses to route more complex enquiries to relevantly skilled team members.
- Customer feedback and satisfaction via an annual surveys of all residents, Trust Pilot and a complaints and compensation policy overseen by the Regulator of Social Housing Ombudsman Service.
- Attendance at and support of estate based resident groups.
- Interventions to help customers manage or improve services from third party suppliers such as house builders and estate managing agents.

Heylo Housing Secured Bond Plc

Strategic Report (continued) For the Half Year Ended 31 March 2021

S172 statement: Directors duty to promote the success of the Company (continued)

Heylo's customer communication strategy reflects its relatively light touch and remote relationship with customers who in the main:

- Are working households (and less likely to be benefit dependent or vulnerable) who are seeking a performance, Value for Money and hence transactional rather than protective relationship with their landlord.
- Have been able to exercise a reasonable level of choice in the housing tenure and property offered to them.
- Have been able to exercise a reasonable level of choice in which housing provider has offered them shared ownership accommodation.
- Exercise a reasonable level of choice over who they buy key services from, given the HHRP and Heylo Housing Group model does not and does not seek to impose a direct estate and service charge management service, as is the case with traditional housing association providers. Where possible, HHRP and Heylo Housing Group Limited (Heylo) will support customers to exercise the Right-to-Manage or Right to Appoint a Manager, as permitted under Landlord and Tenant legislation and especially where shared owners are receiving poor service by agents and/or Freeholders which cannot or is unlikely to be rectified via First Tier Tribunal or complaints management.

Heylo aims to offer a fair, accountable and standardised form of service to all customers contracts via its written and published policies and procedures and through the use of a standard form lease which has been drafted to comply with regulatory and statutory requirements including the Landlord and Tenant Act 1985 and where applicable, the Homes England (HE)'s Capital Funding Guide. The sales process, leases and welcome letters provided by Heylo ensure customers are made aware at the outset of their relationship with the business of their rights and responsibilities and of the services and charges they can expect to pay. If and where any services are directly delivered by HHRP, shared owners will be provided with details on how to make contact to request those services. Heylo continues to be vigilant regarding the performance of third party managers in the delivery of health and safety and fire risks and has intervened to mitigate or remove the impact of recent cladding and other fire risk remediation works.

The Environment

The Company invests predominantly in new build properties, which have a higher energy efficiency than the general stock of housing in the UK. The Company continues to focus on the sustainability of its portfolio.

Shareholders

The Company has only one Shareholder.

Employees

The Company has no employees.

30 June 2021

Heylo Housing Secured Bond Plc

Directors' Report For the Half Year Ended 31 March 2021

The directors present their report and the unaudited financial statements for the half year ended 31 March 2021.

Results and dividends

The profit for the period, after taxation, amounted to £2,512k (31 March 2020 – £1,497k).

The directors do not recommend the payment of a dividend (31 March 2020 - No dividend).

Overview and principal activities

The Company is a property investment company that acquires residential properties that it leases to Heylo Housing Provider Limited (HHRP), a fellow subsidiary, which in turn on leases those properties on a part buy – part rent basis to the Heylo Group's customers.

Details of the Company's objectives and policies for financial risk management and its exposure to credit risk, interest rate cash flow risk, capital risk management and liquidity risk are provided in the Principal risks and uncertainties section of the Strategic report.

Directors

The directors who served during the period were:

G P C Mackay
J P Conway
A W Géczy (Appointed 13 November 2020)
I G Laing (Resigned 13 November 2020)

Future developments

The business strategy of the Company is to invest in residential properties provided on a part buy – part rent basis.

Internal controls and risk management environment

The directors are satisfied that the Company as well as ResiManagement Limited (who provides management services to the Company) operate a robust internal control and risk management environment. In particular, there is an extensive set of policies and procedures supporting how the day-to-day business operates and is managed. These policies and procedures are reviewed regularly and updated as appropriate to reflect changes in the market as well as enhancements on how the Company delivers to HHRP and its customers.

Qualifying third party indemnity provisions

The group parent has put in place qualifying third party indemnity provisions for all of the directors of Heylo Group, and each of its group companies, which remain in force at the date of this report.

Heylo Housing Secured Bond Plc

Directors' Report (continued) For the Half Year Ended 31 March 2021

Going concern

In determining the appropriate basis of preparation of the financial statements, the directors are required to consider whether the Company can continue in operational existence for the foreseeable future. The financial statements have been prepared on a going concern basis which assumes that the Company will be able to meet its liabilities as and when they fall due for the foreseeable future. As at the balance sheet date, the Company has net current assets of £3.9m (31 March 2020 restated: £0.9m) and net assets of £6.1m (31 March 2020 restated: £6.6m). The Company has cash at bank and in hand of £1.6m (31 March 2020: £0.5m). The directors are satisfied that the Company has sufficient liquidity to meet its current liabilities and working capital requirements.

Auditor

The Directors have taken the decision not to reappoint Ernst & Young LLP as the Company's independent auditor and will undertake a process to appoint a new auditor.

30 June 2021

Heylo Housing Secured Bond Plc

Statement of Comprehensive Income For the Half Year Ended 31 March 2021

| | Note | Six months ended 31 March 2021 £'000 (Unaudited) | Restated* Six months ended 31 March 2020 £'000 (Unaudited) | Year ended 30 September 2020 £'000 (Audited) |
|--|------|---|--|---|
| Revenue | 3,4 | 407 | 2,161 | 2,567 |
| Operating costs | 5 | (216) | (2,031) | (2,213) |
| Gross profit | | 191 | 130 | 354 |
| Administrative expenses | | (182) | (120) | (353) |
| Loss on disposal of investment properties | 6 | (215) | (65) | (1,038) |
| Gain from changes in fair value of investment properties | | 3,918 | 2,542 | 872 |
| Operating profit/(loss) | | 3,712 | 2,487 | (165) |
| Interest payable and similar expenses | 8 | (456) | (506) | (818) |
| Profit/(loss) before tax | | 3,256 | 1,981 | (983) |
| Taxation | 9 | (744) | (484) | (522) |
| Profit/(loss) for the period | | 2,512 | 1,497 | (1,505) |
| Total comprehensive income/(loss) for the period | | 2,512 | 1,497 | (1,505) |

*Details of prior period restatement are included in note 2.3.

All profit and total comprehensive income are attributable to the owners of the company.

The notes on pages 10 to 20 form part of these financial statements.

Heylo Housing Secured Bond Plc

Registered number:11222614

Statement of Financial Position

As at 31 March 2021

| | | 31 March 2021 £'000 (Unaudited) | Restated* 31 March 2020 £'000 (Unaudited) | 30 September 2020 £'000 (Audited) |
|--|----|--|---|--|
| Non-current assets | | | | |
| Investment property | 10 | 20,566 | 22,748 | 17,192 |
| | | <u>20,566</u> | <u>22,748</u> | <u>17,192</u> |
| Current assets | | | | |
| Inventory | 11 | 1,829 | 367 | 169 |
| Trade and other receivables | 12 | 748 | 74 | 258 |
| Cash at bank and in hand | | 1,571 | 532 | 3,510 |
| | | <u>4,148</u> | <u>973</u> | <u>3,937</u> |
| Current liabilities | | | | |
| Trade and other payables | 14 | (259) | (81) | (253) |
| | | <u>3,889</u> | <u>892</u> | <u>3,684</u> |
| Net current assets | | | | |
| | | <u>3,889</u> | <u>892</u> | <u>3,684</u> |
| Total assets less current liabilities | | <u>24,455</u> | <u>23,640</u> | <u>20,876</u> |
| Non-current liabilities | | | | |
| Trade and other payables | 15 | (15,885) | (15,361) | (15,562) |
| Deferred tax liability | 16 | (2,493) | (1,712) | (1,749) |
| | | <u>6,077</u> | <u>6,567</u> | <u>3,565</u> |
| Net assets | | <u>6,077</u> | <u>6,567</u> | <u>3,565</u> |
| Issued capital and reserves attributable to owners of the Company | | | | |
| Share capital | 17 | 50 | 50 | 50 |
| Non-distributable reserves | 18 | 6,234 | 5,942 | 3,060 |
| Retained earnings | 18 | (207) | 575 | 455 |
| | | <u>6,077</u> | <u>6,567</u> | <u>3,565</u> |
| Total equity | | <u>6,077</u> | <u>6,567</u> | <u>3,565</u> |

*Details of prior period restatement are included in note 2.3.

The notes on pages 10 to 20 form part of these financial statements.

Heylo Housing Secured Bond Plc

Statement of Changes in Equity For the Half Year Ended 31 March 2021

| | Called up share capital £000 | Non- distributable reserves £000 | Retained earnings £000 | Total equity £000 |
|--|------------------------------------|---|------------------------------|----------------------|
| Balance at 1 October 2020 | 50 | 3,060 | 455 | 3,565 |
| Profit for the period | - | - | 2,512 | 2,512 |
| Transfer between reserves | - | 3,174 | (3,174) | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Balance at 31 March 2021 | 50 | 6,234 | (207) | 6,077 |
| (Unaudited) | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |
| Balance at 1 October 2019 (as restated) | 50 | 3,884 | 1,136 | 5,070 |
| Profit for the period | - | - | 1,497 | 1,497 |
| Transfer between reserves | - | 2,058 | (2,058) | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Balance at 31 March 2020 | 50 | 5,942 | 575 | 6,567 |
| (Unaudited) | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |
| Balance at 1 October 2019 (as restated) | 50 | 3,884 | 1,136 | 5,070 |
| Loss for the year | - | - | (1,505) | (1,505) |
| Transfer between reserves | - | (824) | 824 | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Balance at 30 September 2020 | 50 | 3,060 | 455 | 3,565 |
| (Audited) | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

The notes on pages 10 to 20 form part of these financial statements.

Heylo Housing Secured Bond Plc

Statement of Cash Flows For the Half Year Ended 31 March 2021

| | Six months ended 31 March 2021 £'000 (Unaudited) | Restated Six months ended 31 March 2020 £'000 (Unaudited) | Year ended 30 September 2020 £'000 (Audited) |
|--|---|---|---|
| Cash flows from operating activities | | | |
| Profit/(loss) for the financial year | 2,512 | 1,497 | (1,505) |
| Adjustments for: | | | |
| Loss on disposal of investment property | 215 | 65 | 1,038 |
| Interest payable and similar expenses | 456 | 506 | 818 |
| Taxation | 744 | 484 | 522 |
| (Increase)/decrease in inventory | (1,660) | 1,811 | 2,009 |
| Increase in trade and other receivables | (490) | (5) | (10) |
| Decrease in trade and other payables | 6 | 32 | 45 |
| Gain from changes in fair value of investment properties | (3,918) | (2,542) | (872) |
| Net cash (used)/generated in operating activities | (2,135) | 1,848 | 2,045 |
| Cash flows from investing activities | | | |
| Purchase of investment properties | (593) | (1,327) | (1,768) |
| Sale of investment properties | 922 | (335) | 2,998 |
| Net cash generated/(used) in investing activities | 329 | (1,662) | 1,230 |
| Cash flows from financing activities | | | |
| Debt issue costs incurred | - | (20) | - |
| Interest paid | (133) | (131) | (262) |
| Net cash (used)/generated in financing activities | (133) | (151) | (262) |
| Net (decrease)/increase in cash and cash equivalents | (1,939) | 35 | 3,013 |
| Cash and cash equivalents at beginning of period / year | 3,510 | 497 | 497 |
| Cash and cash equivalents at the end of period / year | 1,571 | 532 | 3,510 |
| Cash and cash equivalents at the end of period / year comprise: | | | |
| Cash at bank and in hand | 1,571 | 532 | 3,510 |

The notes on pages 10 to 20 form part of these financial statements.

Heylo Housing Secured Bond Plc

Notes to the Financial Statements For the Half Year Ended 31 March 2021

1. General information

Heylo Housing Secured Bond Plc ("the Company") is a public company, limited by shares, incorporated in England and Wales under the Companies Act 2006. The address of the registered office is 5th Floor, One New Change, London EC4M 9AF given on the Company Information page and the company's registered number is 11222614. The nature of the Company's operations and its principal activities are outlined in the Directors' Report.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with International Financial Reporting Standards in conformity with the Companies Act 2006 ('IFRS').

The presentation currency is pounds sterling. All amounts are rounded to the nearest thousand (£'000).

The preparation of financial statements in compliance with IFRS requires the use of certain critical accounting estimates. It also requires Company management to exercise judgment in applying the Company's accounting policies. See note 2.12 for further details.

The following principal accounting policies have been applied:

2.2 Impact of new international reporting standards, amendments and interpretations

The unaudited Half Yearly Financial Statements have been prepared using accounting policies consistent with IFRS as adopted by the EU and in accordance with IAS 34 'Interim Financial Reporting' as adopted by the EU, and using accounting policies and methods of computation consistent with those applied in the preparation of the Company's Accounts for the year ended 30 September 2020.

2.3 Prior period adjustments

Government grants

In the previous periods government grants were shown as a long-term liability on the statement of financial position on the basis that they are repayable at some future date once a tenant has staircased in part or in full. This potential obligation to repay is now regarded as a contingent liability until the conditions for repayment of grant are met. When a tenant staircases a liability is recorded in the statement of financial position to reflect the obligation to repay the required portion of the grant to the relevant government body. The prior period has been restated to reflect this treatment, resulting in a net increase of £2,024k to net assets with a corresponding increase in 31 March 2020 net profit.

Inventory

In certain situations, the Company acquires full vacant possession of a property before a tenant is in place. Where a property is acquired vacant, a long lease on a property under a shared ownership agreement is granted through a sale of a portion of the property to the occupier in return for an initial payment (the First Tranche).

Heylo Housing Secured Bond Plc

Notes to the Financial Statements For the Half Year Ended 31 March 2021

2.3 Prior period adjustments (continued)

Inventory (continued)

In previous periods, first tranche portion of properties under shared ownership agreements were included within investment properties on the balance sheet as the Company holds the assets for long term rental income under IAS 40 Investment Property. These first tranche portions are now regarded as inventories held at the lower of cost and net realisable value. Similarly, the proceeds from first tranche sales have previously been presented net within loss on disposal of investment properties. A first tranche sale of inventory is now regarded as revenue, with an associated cost of sale and presented gross on the income statement. The prior period has been restated to reflect this treatment, resulting in a net increase of £1,234k to net assets, and a corresponding increase to 31 March 2020 net profit.

The net profit for 31 March 2020 increased by £1,234k due to recognition of £2,177k of inventory at cost (net of a £181k write-down) but partially offset by £653k reversal of valuation gains related to the inventory portion previously included in investment property, and recognition of deferred tax liabilities of £290k.

The 31 March 2020 statement of comprehensive income was also restated to gross up revenue (£1,937k) and cost of sales (£1,979k) for the £42k net loss relating to first tranche sales previously reported as net loss on disposal of properties.

Other reclassification

The 31 March 2020 comparative statement of comprehensive income was restated to conform with the current year's presentation. Accordingly, £52k of property management fees previously included within administrative expenses are now included within operating costs. The reclassification did not have impact on net results or net assets.

2.4 Revenue

Revenue comprises rental income and first tranche sales of shared ownership properties.

Revenue is shown net of value added tax.

Rentals are recognised on a straight-line basis over the lease term. Future changes in the level of lease receivable caused by inflation will be recognised as an adjustment to rental income.

Property sales consist of one performance obligation – the transfer of property to the shared owner. The transaction price is fixed and specific in the sales contract. Revenue on first tranche sales is recognised at a point in time, when control of the property passes. Control is considered to pass on legal completion of the property sale.

2.5 Operating costs

Operating costs comprise 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.

Operating costs also include direct property expenses related to asset management and leasing activities.

Heylo Housing Secured Bond Plc

Notes to the Financial Statements For the Half Year Ended 31 March 2021

2.6 Finance costs

Finance costs are charged to the Statement of Comprehensive Income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

2.7 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

2.7 Current and deferred taxation (continued)

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the United Kingdom where the Company operates and generates income.

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amount for financial reporting purposes at the reporting date.

Deferred tax balances are recognised in respect of all temporary differences that have originated but not reversed by the Statement of Financial Position date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

2.8 Investment property

Investment properties are recognised at cost, including directly attributable transaction costs when title passes. Subsequently, Investment property is carried at fair value determined annually by external valuers and derived from the current market rents and investment property yields for comparable real estate, adjusted if necessary for any difference in the nature, location or condition of the specific asset. The fair value is determined to be at Level 3 of the fair value hierarchy outlined in IFRS 13 Fair Value Measurement. There have been no transfers between levels of the fair value hierarchy. No depreciation is provided. Changes in fair value are recognised in the Statement of Comprehensive Income.

The Company has assessed that the highest and best use of its properties does not differ from their current use.

Derecognition of the relevant portion of the property takes place through subsequent staircasing. The difference between the net disposal proceeds and the carrying value of the related proportion of the asset disposed is recognised in profit or loss in the period of recognition.

All of the investment property relates to the Company's share of the properties which they control and retain legal title.

Heylo Housing Secured Bond Plc

Notes to the Financial Statements For the Half Year Ended 31 March 2021

2.8 Investment property (continued)

Shared ownership

Shared ownership is where initially a long operating lease on a property is granted through the sale of an initial portion to the occupier, in return for an initial payment (the first Tranche). Initial sales are included within revenue and the related proportion of the cost of the asset recognised as cost of sales.

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

2.9 Inventories

Inventories relate to the portion of the properties that will be sold as the initial sale enabling the Company to enter into a shared ownership agreement. In accordance with IAS 2 Inventories, they are held at the lower of cost and net realisable value.

2.10 Financial instruments

The Company applies the recognition and measurement provisions of IFRS 9 'Financial instruments' and the disclosure requirements to account for all its financial instruments.

Financial assets

Financial assets comprise basic trade and other receivables and cash.

Trade and other receivables

Trade and other receivables are measured at amortised cost using the effective interest rate method.

Financial assets that do not have a significant financing component are measured for impairment purposes using a simplified lifetime expected loss approach. No significant impairment was deemed necessary in the current accounting period as the significant trade receivables balance consists of amounts owed by group undertakings (Note 12).

Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

Financial liabilities

Financial liabilities primarily comprise indexed linked bond issues on the Main Market of the London Stock Exchange. They are carried at historic cost plus a bi-annual increase dictated by the original bond documentation which is calculated by reference to the LPI (Limited Price Indexation) index.

Trade payables

Short term payables are measured at the transaction price.

Heylo Housing Secured Bond Plc

Notes to the Financial Statements For the Half Year Ended 31 March 2021

2.11 Government grants

Government grants are not recognised until there is reasonable assurance that the Company will comply with the conditions attaching to them and that the grants will be received. Grants relating to the acquisition of shared ownership investment properties are recognised immediately as income to compensate for the reduction in fair value of the investment property. Accordingly, the grant income is deducted from revaluation gains or loss reported in the Statement of Comprehensive Income. Prior to satisfying any performance obligations related to grant (which includes acquisition of investment property, application for government funding and compliance of capital funding guide), such grants are held as a liability (deferred income) on the Statement of Financial Position.

In some circumstances, typically when a Shared Owner staircases, there arises an obligation to repay the grant to the relevant government body. This is treated as a contingent liability until the conditions for repayment are expected to apply, in which case the amount repayable is recognised as a liability on the Statement of Financial Position and deducted from the measurement of any gain on the staircase transaction.

2.12 Judgements in applying accounting policies and key sources of estimation uncertainty

The Company makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

3. Segmental information

In determining the Company's operating segment, management has primarily considered the financial information in the internal reports that are reviewed and used by the Board of Directors (in aggregate the chief operating decision maker) in assessing performance and in determining the allocation of resources. The financial information in those internal reports in respect of revenue and expenses has led management to conclude that the Company has a single operating segment, i.e. generating rent income and capital returns from investment properties.

All revenue from continuing operations is attributable to, and all non-current assets are located in the country of domicile of the Company, the United Kingdom.

The Company acquires residential properties that it leases to HHRP, a fellow subsidiary, which in turn on leases those properties on a part buy - part rent basis to ultimate tenants. There is no individual customer/tenant of HHRP that contributes greater than 10% of total revenue.

4. Revenue

| | Half year ended 31 March 2021 £000 | Restated Half year ended 31 March 2020 £000 |
|---------------------|--|--|
| Gross rental income | 213 | 224 |
| First tranche sales | 194 | 1,937 |
| | <hr/> | <hr/> |
| | 407 | 2,161 |
| | <hr/> | <hr/> |

For further details of the restatement please see note 2.3

Heylo Housing Secured Bond Plc

Notes to the Financial Statements For the Half Year Ended 31 March 2021

5. Operating costs

| | Half year ended 31 March 2021 £000 | Restated Half year ended 31 March 2020 £000 |
|-----------------------------|---|---|
| Property expenses | 47 | 52 |
| First tranche cost of sales | 169 | 1,979 |
| | <u>216</u> | <u>2,031</u> |

For further details of the restatement please see note 2.3

6. Loss on disposal of investment properties

| | Half year ended 31 March 2021 £000 | Restated Half year ended 31 March 2020 £000 |
|---|---|---|
| Loss on disposal of investment properties | (215) | (65) |

For further details of the restatement please see note 2.3

7. Directors remuneration and staff costs

The Company has no employees. The directors did not receive any remuneration; however, they are considered as key management personnel within the Company.

8. Interest payable and similar expenses

| | Half year ended 31 March 2021 £000 | Half year ended 31 March 2020 £000 |
|-----------------------|---|---|
| Bond interest payable | 456 | 506 |

Bond interest payable includes interest capitalised as part of principal amounts in accordance with the terms of the bonds.

Heylo Housing Secured Bond Plc

Notes to the Financial Statements For the Half Year Ended 31 March 2021

9. Taxation

| | Half year ended 31 March 2021 £000 | Half year ended 31 March 2020 £000 |
|---|--|--|
| Total current tax | - | - |
| Deferred tax | | |
| Deferred tax on revaluation of properties | (744) | (484) |
| Taxation charge | (744) | (484) |

An increase in the future main corporation tax rate to 25% from 1 April 2023, from the previously enacted 19%, was announced at the budget on 3 March 2021, and substantively enacted on 24 May 2021. The deferred tax balance at 31 March 2021 has been calculated based on the rate as at the balance sheet date.

10. Investment property

The Company acquired properties for £16.6 million. Investment properties have been valued at £20.6 million under the Existing Use Value for Social Housing (EUV-SH) methodology.

The Company's investment properties comprise of 98 new build and 7 second-hand homes primarily located in the North of England and East Anglia.

11. Inventory

| | Half year ended 31 March 2021 £000 | Restated Half year ended 31 March 2020 £000 |
|-----------------------------|--|--|
| Shared ownership properties | 1,829 | 367 |

An expense of £169k (31 March 2020: £1,979k) has been charged to the income statement in the period on first tranche sales. There were no write-downs (31 March 2020: £Nil) or reversal of prior period inventory write-downs (31 March 2020: Nil). No inventories are carried at net realisable value.

For further details of the restatement please see note 2.3

Heylo Housing Secured Bond Plc

Notes to the Financial Statements For the Half Year Ended 31 March 2021

12. Trade and other receivables

| | Half year ended 31 March 2021 £000 | Half year ended 31 March 2020 £000 |
|------------------------------------|--|--|
| Trade receivables | 9 | 68 |
| Amounts owed by group undertakings | 578 | - |
| Other receivables | 161 | 6 |
| | <u>748</u> | <u>74</u> |

13. Financial instruments

| | Half year ended 31 March 2021 £000 | Restated Half year ended 31 March 2020 £000 |
|--|--|--|
| Financial assets | | |
| Financial assets measured at amortised cost | 2,312 | 606 |
| | <u>2,312</u> | <u>606</u> |
| Financial liabilities | | |
| Financial liabilities measured at amortised cost | 16,144 | 15,442 |
| | <u>16,144</u> | <u>15,442</u> |

Financial assets that are debt instruments measured at amortised cost comprise cash, trade and other receivables and amounts owed by parent undertakings.

Financial liabilities measured at amortised cost comprise trade and other creditors, accruals and secured bonds. The total interest expense recognised in these financial statements measured at amortised cost is included in Note 8. The secured bonds have a maturity date of 30 September 2028.

For further details of the restatement please see note 2.3.

Heylo Housing Secured Bond Plc

Notes to the Financial Statements For the Half Year Ended 31 March 2021

14. Trade and other payables

| | Half year ended 31 March 2021 £000 | Half year ended 31 March 2020 £000 |
|------------------------------------|--|--|
| Amounts owed to group undertakings | 39 | - |
| Other payables | 180 | 40 |
| Accruals | 40 | 41 |
| | <u>259</u> | <u>81</u> |

15. Trade and other payables: Amounts falling due after more than one year

| | Half year ended 31 March 2021 £000 | Restated Half year ended 31 March 2020 £000 |
|---|--|--|
| Secured 1.625% inflation linked 50-year Sterling Bond | 16,441 | 16,072 |
| Less: issue costs | (556) | (711) |
| | <u>15,885</u> | <u>15,361</u> |

During the financial period ended 30 September 2019, the Company issued index linked bonds with repayment date of 29 September 2028 (the "Bonds"). The Company sold £15,424,400 of Bonds to investors and retains £4,575,600. The Bonds are listed on the Main Market of the London Stock Exchange and are indexed according to an LPI formula, calculated by reference to RPI with a base index figure from February 2018. The Bonds have asset cover and debt service cover covenants and these were in compliance at 31 March 2021 period end as well as at the time of release of the financial statements for the half year ended 31 March 2021. The Bonds are secured on the properties of the Company.

On each interest payment date (in March and September), the amount of the Bonds increases in accordance with the LPI Index and the 1.625% interest rate is payable on the indexed amount. During the period, increases in accordance with the LPI Index were £323k and the interest payable was £133k, giving a total income expense in the period of £456k, shown as interest costs in the Company's income statement.

As at 31 March 2021, the fair value of the Secured 1.625% inflation linked 10 year Sterling Bond was £16,622k. The fair value has been calculated by reference to its published price quotation on the London Stock Exchange where the bonds were trading at 101.10 pence. The fair value is determined in accordance with Level 1 of the fair value hierarchy outlined in IFRS 13 Fair Value Measurement.

Heylo Housing Secured Bond Plc

Notes to the Financial Statements For the Half Year Ended 31 March 2021

16. Deferred taxation

The provision for deferred taxation is made up as follows:

| | Half year ended 31 March 2021 £000 | Restated Half year ended 31 March 2020 £000 |
|---------------|--|--|
| Capital gains | 2,493 | 1,712 |

17. Share capital

| | Half year ended 31 March 2021 £000 | Half year ended 31 March 2020 £000 |
|--|--|--|
| Allotted , called up and fully paid shares classified as equity | | |
| 12,500 Ordinary shares of £1.00 each | 13 | 13 |
| Allotted and called up shares classified as equity | | |
| 37,500 Ordinary shares of £1.00 each | 37 | 37 |
| | 50 | 50 |

Authorised share capital: 50,000 ordinary shares of £1 each.

The shares have attached to them full voting, dividends and capital distribution rights.

Heylo Housing Secured Bond Plc

Notes to the Financial Statements For the Half Year Ended 31 March 2021

18. Reserves

Share capital

Called up share capital reserve represents the nominal value of the shares issued.

Retained earnings

Retained earnings represents cumulative profits or losses net of dividends paid and other adjustments excluding non-distributable reserves.

Non-distributable reserves

Non-distributable reserves represent the cumulative profit or loss which is not distributable. This relates to investment property revaluations and the associated deferred tax.

19. Contingent liabilities and commitments

The Company has received government grant funding of £2.6 million from Homes England to support the delivery of shared ownership homes.

In some circumstances, typically when a Shared Owner staircases, there arises an obligation to repay the grant to the relevant government body. This is treated as a contingent liability until the conditions for repayment are expected to apply, in which case the amount repayable is recognised as a liability on the Statement of Financial Position and deducted from the measurement of any gain on the staircase transaction. As at the period end date no liabilities were recognised on the Statement of Financial Position.

20. Related party transactions

The Company has entered into a long-term management agreement with ResiManagement Limited, a company with common shareholders and directors to the Company's parent, Heylo Housing Group Limited. Under the management agreement the Company pays fees to ResiManagement Limited for the provision of asset sourcing and management services to the Company.

Heylo Housing Registered Provider Limited ("HHRP") is a related party of the Company. The Company owns the investment properties within its portfolio. It leases them to HHRP, another wholly owned subsidiary of Heylo Housing Group Limited, which will in turn onward lease the properties to customers. The agreements with HHRP stipulate that all rent and sales receipts from those properties will be directly attributable to the Company. HHRP is a registered provider regulated by the RSH (Regulator of Social Housing).

21. Controlling party

The Company's immediate and ultimate parent undertaking is Heylo Housing Group Limited. The directors consider that the ultimate controlling party of Heylo Housing Group Limited is the majority shareholder.

The largest and smallest group in which the Company is consolidated is that headed by Heylo Housing Group Limited, a company incorporated and registered in the United Kingdom. The consolidated accounts of Heylo Housing Group Limited are available to the public from its registered office, 5th Floor, One New Change, London EC4M 9AF.