Heylo Housing Secured Bond Plc

Report and Financial Statements

Year Ended

30 September 2019

Company Number 11222614

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Heylo Housing Secured Bond Plc

Company Information

Directors	C A Hewitt B G Lochead G P C Mackay
Company secretary	Gravitas Company Secretarial Services Limited
Registered number	11222614
Registered office	5th Floor One New Change London EC4M 9AF
Independent auditor	Ernst & Young LLP 400 Capability Green Luton LU1 3LU
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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Strategic Report
For the Year Ended 30 September 2019

Introduction

The Directors present their Strategic Report of Heylo Housing Secured Bond Plc ("HHSB" or "the Company") for the year ended 30 September 2019.

Business review

The Company is wholly owned by Heylo Housing Group Limited, 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.

As at 30 September 2019, the Company had originally acquired 79 properties from 3 housebuilders, with associated grant income of £ 2.4 million and 21 second-hand properties via the Your Home product. Two properties were disposed of during the year leaving a portfolio of 77 acquired new build properties. At the date of this report a further two second-hand properties (Your Home) had been acquired. Some of the properties were acquired empty upon build completion. Over the last three months and for the next quarter, HHSB has been and is focused on selling initial shares so that it can reinvest the proceeds in its pipeline and grow the rent roll, expected to be circa £0.59 million per annum once current properties are fully occupied.

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

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 rental income from the property portfolio is due from many individual occupiers. Every occupier is assessed for affordability in accordance with the guidance from Homes England before entering into a lease. 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 and by adhering to strict affordability criteria.

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.

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 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's borrowings are repayable on the relevant maturity of the bonds and accordingly the Company manages any refinance risk at maturity. The Company aims to further mitigate liquidity risk through regular monitoring of its cash flow forecasts.

This strategic report was approved by the board on 31 January 2020 and signed on its behalf by:

B G Lochead
Director

Heylo Housing Secured Bond Plc

Directors' Report
For the Year Ended 30 September 2019

The directors present their report and audited financial statements for the year ended 30 September 2019.

Results and dividends

The profit for the period, after taxation, amounted to £1,775,000 (2018: £nil).

The directors do not recommend the payment of a 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 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:

B G Lochead (Appointed 10 April 2019)
G P C Mackay (Appointed 10 April 2019)
C A Hewitt

N A McAlpine-Lee (resigned 31 August 2019)

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 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.

Disclosure of information to Auditors

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information (being information needed by the auditor in connection with preparing their report), of which the Company's auditor is unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information

Post Balance Sheet events

There are no material post balance sheet events up to the date of signing this report.

Going concern

The directors have prepared the accounts on a going concern basis.

Auditors

The auditor, Ernst and Young LLP, will be proposed for reappointment in accordance with Section 485 of the Companies Act 2006.

This report was approved by the Board on 31 January 2020 and signed on its behalf:

B G Lochead

Director

Heylo Housing Secured Bond Plc

Directors' Responsibilities Statement
For the Year Ended 30 September 2019

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS). 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 Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors have been required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditors' Report to the members of Heylo Housing Secured Bond plc
For the Year Ended 30 September 2019

Opinion
We have audited the financial statements of Heylo Housing Secured Bond Plc for the year ended 30 September 2019 which comprise the statement of Comprehensive Income, the Statement of Financial Position, Statement of cash flows, the Statement of changes in equity and the related notes 1 to 17, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 30 September 2019 and of its comprehensive profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 below. We are independent of the 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 going concern
We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

Key audit matters	• Valuation of investment properties • Improper revenue recognition and management override of controls • Funding headroom and compliance with debt covenants
Materiality	• Overall materiality of £168k, which represents 1% of total assets.

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. These matters included 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. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters. In 2018, our auditor's report included one key audit matter that has not been reported as a key audit matter in our 2019 report. This related to Management override of controls in respect of cash and has been downgraded after no issues were identified in 2018.

Risk	Our response to the risk	Key observations communicated to Management
Significant Risk - Valuation of the investment property portfolio (£19,233k, 2018: £nil) *Refer to the Audit Report (page 6); Accounting policies (page 17); and Note 2.7 of the Financial Statements (page 19).* The valuation of investment property requires significant estimation and judgement by management. Any input inaccuracies or unreasonable bases used in these judgements (such as in respect of house price growth and the rate of expected staircasing) could result in a material misstatement of the profit for the year. There is also a risk that management may influence the significant judgements and estimates in respect of investment property valuations to achieve performance targets and meet market expectations or bonus targets. Given the sensitivity to change in inputs to the fair value of Investment property, this risk was considered a significant risk. This risk is new in the year with the acquisition of investment properties.	Our audit procedures around the valuation of property included: - evaluating the competence of the external valuer, including consideration of their qualifications and expertise. - holding discussions with the external valuer and management to discuss their valuation approach and the judgements made in assessing the property valuation; including house price growth and staircasing rate assumptions. - performing testing over a sample of properties to validate the documentation provided by management to the external valuer. This included agreeing a sample of this documentation back to underlying lease data. - involving EY Chartered Surveyor specialists as part of our audit team who reviewed and challenged the valuation approach used. Our EY specialists considered the assumptions applied by the external valuer, such as the estimated house price growth and expected staircasing rate.	We have tested the inputs, assumptions and methodology used by the external valuers. We have concluded that the methodology applied is reasonable and that the external valuations are an appropriate assessment of the market value of investment properties at 30 September 2019. We concluded that the value assigned to the property portfolio was within a reasonable range of values, albeit at the upper end of this range.

Risk	Our response to the risk	Key observations communicated to Management
Fraud Risk - Improper revenue recognition and risk of management override Rental income: £191k (2018: £nil) Sales from shared ownership: (£75k) (2018: £nil) *Refer to the Audit Report (page 12); Accounting policies (page 17); and Note 4 of the Financial Statements (page 20).* The revenue recognition risk is focused around cut-off in relation to property sales and rental income. Management are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. This may result in the overstatement or deferral of revenues to assist in meeting current or future targets or expectations.	Our audit procedures over revenue recognition included: - selecting a sample of new lease agreements and agreeing the details from the tenancy agreements to the revenue recorded; - performing analytical procedures to identify unusual revenue recognition trends; - performing cut-off procedures for a sample of transactions around year end to assess whether revenue had been recognised in the appropriate accounting period, agreeing to source documentation; - assessing whether the revenue recognition policies adopted complied with IFRS as adopted by the European Union; and - Journal entry testing procedures designed to address the risk of management override of controls through fictitious journal postings. - auditing the timing of revenue recognition and assessed the risk of valuation and management override.	Based on the audit procedures performed, we concluded that revenue has been recognised at an appropriate amount and in the correct period.

Significant Risk Funding headroom and compliance with debt covenants *Refer to the Audit Report (page 6); Accounting policies (page 17); and Note 13 of the Financial Statements (page 25).* The Company has issued corporate bonds to fund the acquisition of investment properties. This debt facility requires the Company to comply with certain key covenants. Management prepare half yearly covenant and headroom calculations and compliance certificates. Management's assessment of the funding headroom and covenant compliance requires forecasting future property and bond value which requires estimation. Given this is the first year of acquiring investment properties and issuing corporate bonds this is a significant risk for our audit.	In response to this risk our testing included: - obtaining the bond prospectus to understand the key terms of the debt, including covenant tests; - obtaining the most recent covenant compliance certificate to ensure compliance; - independently recalculating the covenants to ensure compliance; - performing sensitivity analysis to identify the effect of reasonable changes in property and debt values;	We have audited the covenant calculations and independently assessed that the covenants were met at the balance sheet date. The asset cover test is the most sensitive with headroom of £400k at year end reflecting a 2% fall in investment property value. Based on the EY testing performed and historical house price growth we do not consider a 2% movement in investment property value reflects a reasonable change given available mitigating actions. Based on the audit procedures performed, we concluded that the Company is in compliance with its covenants at the balance sheet date.

An overview of the scope of our audit

Tailoring the scope
Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

Our application of materiality
We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

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. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the company to be £168k (2018: £250), which is 1% (2018: 0.5%) of total assets. We believe that the total assets benchmark provides us with the most appropriate basis for determining overall materiality given that the entity's investment property balance accounts for around 97% of the entity's total assets (2018: 0%) and the fact that key users of the financial statements are primarily focused on the valuation of the investment property portfolio. This provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

During the course of our audit, we reassessed initial materiality and confirmed that our final materiality was consistent with the materiality we calculated initially.

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 assessments, together with our assessment of the company's overall control environment, our judgement was that performance materiality was 75% (2018: 50%) of our planning materiality, namely £126k (2018: £125). The lower percentage used in 2018 reflected that 2018 was the first year the company was incorporated and under audit.

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

We agreed with the Board of Directors that we would report to them all uncorrected audit differences in excess of £8k (2018: £13), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

Other information
The other information comprises the information included in the annual report set out on pages 1-4 other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this 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.

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 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 company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or 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, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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 5, 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 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 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant frameworks which are directly relevant to specific assertions in the financial statements are those that relate to the reporting.

- framework (IFRS and the Companies Act 2006) and the relevant tax regulations in the United Kingdom.

- We understood how Heylo Housing Secured Bond Plc is complying with those frameworks through enquiry with management, and by identifying the company's policies and procedures regarding compliance with laws and regulations. We also identified those members of management who have the primary responsibility for ensuring compliance with laws and regulations, and for reporting any known instances of non-compliance to those charged with governance.

- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by enquiry with management during the planning and execution phases of our audit.

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved the following:

    - Inquiry of senior management, and when appropriate, those charged with governance regarding their knowledge of any non-compliance or potential non-compliance with laws and regulations that could affect the financial statements.

    - Reading minutes of meetings of those charged with governance.

    - Obtaining and reading correspondence from legal and regulatory bodies.

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

Other matters we are required to address

- We were appointed by the company on 22 January 2019 to audit the financial statements for the year ending 30 September 2018.

The period of total uninterrupted engagement including previous renewals and reappointments is two years, covering the years ending 30 September 2018 to 30 September 2019.

- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company in conducting the audit.
- The audit opinion is consistent with our additional report to the Board of Directors.

Use of our report

This report is made solely to the 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 company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Andrew Clewer (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Luton
31 January 2020

Heylo Housing Secured Bond Plc
Company Number 11222614

Statement of Comprehensive Income
For the Year Ended 30 September 2019

	Note	Year ended 30 September 2019 £'000	Period to 30 September 2018 £'000
Revenue	3	191	-
Gross profit		**191**	-
Administrative expenses		(245)	-
Loss on disposal of investment properties	4	(75)	-
Gains from changes in fair value of investment properties	9	2,990	-
Operating profit		**2,861**	-
Interest payable and similar expenses	7	(578)	-
Profit before taxation		**2,283**	-
Tax on profit	8	(508)	-
Profit and total comprehensive income for the period		**1,775**	-

The comparative period relates to the period from 23 February 2018 to 30 September 2018.

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

The notes on pages 17 to 27 form part of these financial statements.

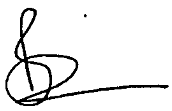
Heylo Housing Secured Bond Plc

Statement of Financial Position
For the Year Ended 30 September 2019

	Note	2019 £'000	2019 £'000	2018 £'000	2018 £'000
Non current assets					
Investment property	9		19,262		-
Current assets					
Trade and other receivables	10	69		37	
Cash at bank and in hand		497		13	
		566		**50**	
Current liabilities					
Trade and other payables		(49)		-	
Net current assets			517		50
Total assets less current liabilities			**19,779**		**50**
Non current liabilities					
Creditors: amounts falling due after more than one year	13		(17,446)		-
Deferred taxation	8		(508)		-
Net assets			**1,825**		-
Capital and reserves					
Called up share capital	15		50		50
Non-distributable reserves	16		2,482		-
Profit and loss account			(707)		-
Equity attributable to owners of the parent Company			**1,825**		**50**

The financial statements were approved and authorised for issue by the board and were signed on its behalf on

B G Lochead
Director



The notes on pages 17 to 27 form part of these financial statements.

Heylo Housing Secured Bond Plc

Statement of Changes in Equity
For the Year Ended 30 September 2019

	Note	Called up share capital £'000	Non-distributable reserves £'000	Profit and loss account £'000	Total equity £'000
At 23 February 2018		50	-	-	**50**
Profit for the year		-	-	-	-
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		-	-	-	-
At 30 September 2018	15	50	-	-	50
At 1 October 2018		50	-	-	**50**
Profit for the year		-	-	(707)	**(707)**
Gain in value of investment properties	15	-	2,482	-	**2,482**
Total comprehensive income for the year		-	2,482	(707)	1,825
At 30 September 2019		50	2,482	(707)	1,825

Heylo Housing Secured Bond Plc

Statement of Cash Flows
For the Year Ended 30 September 2019

	Note	Year ended 30 September 2019 £'000	Period to 30 September 2018 £'000
Cash flows from operating activities			
Profit for the financial year		1,775	-
Adjustments for:			
Loss on disposal of investment property	4	75	
Interest paid	7	506	-
Taxation	8	508	-
Increase in debtors		(32)	-
Increase in creditors		49	-
Gain from changes in fair value of investment property	9	(2,990)	-
Net cash flows from operating activities		**(109)**	**-**
Cash flows from investing activities			
Purchase of investment property	9	(18,096)	-
Grants received re investment property	13	2,439	-
Sale of investment properties		1,750	-
Net cash used in investing activities		**(13,907)**	**-**
Cash flows from financing activities			
Proceeds from issue of ordinary shares		-	13
Debt issue costs incurred	13	(691)	-
New borrowing issued	13	15,425	-
Interest paid		(234)	-
Net cash flow from financing activities		**14,500**	**13**
Net increase in cash and cash equivalents		**484**	**13**
Cash and cash equivalents at beginning of the period		**13**	-
Cash and cash equivalents at end of the period		**497**	**13**

1. General information

Heylo Housing Secured Bond Plc ('the Company' or 'HHSB') is a public company limited by shares and incorporated and registered in England & Wales under the Companies Act and its registered number is 11222614. The registered office is 5th Floor, One New Change, London, EC4M 9AF.

2. Accounting policies

2.1 Basis of preparation of financial statements

The 2018 comparative financial statements were prepared for the period 23 February 2018 through to 30 September 2018

The financial statements contain information about the Company as an individual company and do not contain consolidated financial information as part of the group. The financial statements have also been prepared on a going concern basis.

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRS).

The financial statements have been prepared under the historical cost convention, except for investment properties that have been measured at fair value.

The financial statements are prepared in sterling which is the functional currency of the Company and rounded to the nearest £'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. Estimates and assumptions were made by management in arriving at the fair value of investment properties – management engaged the services of third party independent valuers and worked with them to refine assumptions throughout the valuation exercise. Management also reviewed the principal iterations of the valuation models prior to agreeing the fair value of investment properties presented in the financial statements.

2.2 New and amended standards and interpretations

A number of new and amendment to standards and interpretations have been issued. These are either not applicable to the company or do not have a significant impact on the company's financial statements, except as noted below. In preparing the financial statements to 30 September 2019, we have considered the potential impact of three new IFRS Standards, namely IFRS9, IFRS 15 and IFRS16.

Items issued and effective during the period

IFRS9 – the principal change which could apply to the Company is in relation to the calculation of any bad debt provision. Bad debts within the business are generally not material and therefore we consider that there would be no impact in transitioning to the amended standard.

IFRS15 – no impact as our relationship with customers are governed by standard shared ownership lease arrangements which are not complex in nature.

Items issued and but not yet effective during the period

IFRS16 – Our portfolio comprises investment properties held for the long term on which rental income is earned. The Company has no operating leases. Consequently, we are of the opinion that the new provisions included within this standard do not apply to the Company. However, enhanced disclosures will be required for the type and basis of leases that the Company operates and the impact on lease payments which the company is assessing.

2.3 Revenue

The Company started trading during the period to 30 September 2019. Revenue comprises the rent received from the Company's property portfolio. Revenue is shown net of value-added tax.

Rentals under operating leases 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.

2.4 Current and deferred taxation

The tax expense comprises current tax and deferred tax. Tax is recognised in the Income Statement.

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted in the United Kingdom at the reporting date.

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;
- 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.

2.5 Financial instruments

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

Financial assets

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 as permitted by IFRS 9. No significant impairment was deemed necessary in the current accounting period as the trade receivables balance represents amounts owed by parent undertaking (Note 10).

Cash and cash equivalents
Cash and cash equivalents are 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 index linked bonds issues on the Main Market on the London Stock Exchange. They are carried at historical cost plus a bi-annual increase dictated by the original bond documentation which is calculated by reference to the LPI (Limited Price Indexation) index.

2.6 Interest income

Interest income is recognised in the Income Statement using the effective interest method.

2.7 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. No depreciation is provided. Changes in fair value are recognised in the Income Statement.

Investment properties are derecognised when they have been disposed of, either in full or in part through the granting of a shared ownership lease to a customer where in the case when a property was initially acquired vacant. The difference between the net disposal proceeds and the carrying value of the asset is recognised in profit or loss in the period of recognition.

2.8 Government grants

Government grants are accounted for as long term liabilities as they are repayable in future once a tenant has staircased in full. This treatment is as permitted by IAS 20.

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 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 Group, the United Kingdom.

There is no individual customer of the Group that contributes greater than 10% of total revenue.

4. Other operating income

	Year ended 30 September 2019 £'000	Period to 30 September 2018 £'000
Loss on disposal of investment properties	(75)	-

5. Operating profit

The operating profit is stated after charging:

	Year ended 30 September 2019 £'000	Period to 30 September 2018 £'000
Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements. Fees for prior year were paid by the Company's immediate and ultimate parent company Heylo Housing Group Limited.	30	5

6. 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.

7. Interest payable and similar charges

	Year ended 30September 2019 £'000	Period to 30September 2018 £'000
Bond interest payable	506	-
Amortisation on bond issue costs	71	-
	577	-

Bond interest payable includes interest capitalised as part of principal amounts in accordance with the terms of the bonds, see Note 13.

8. Taxation

	Year ended 30 September 2019 £'000	Period to 30September 2018 £'000
Tax attributable to current year losses	55	-
Deferred tax		
Deferred tax on revaluation of property portfolio	(563)	-
Total deferred tax	**(563)**	-
Taxation on profit	**(508)**	-

	Year ended 30 September 2019 2019 £'000	Period to 30 September 2018 2018 £'000
Profit before tax	**2,284**	-
Profit multiplied by standard rate of corporation tax in the UK of 19% (2018: 19%)	**434**	-
Effects of:		
Expenses not deductible	**41**	-
Difference in tax base versus accounting cost of properties disposed	**14**	-
Difference arising from tax rate change	**(51)**	-
Tax losses not recognised	**70**	-
Total tax charge for the year	**508**	-

The Company has tax losses of £707,000 (2018: £nil) that are available indefinitely for offsetting against future taxable profits. A deferred tax asset has not been recognised in respect of these losses as the Company does not believe there will be future taxable profits to offset.

Factors that may affect future tax charges:
On 26 October 2016, legislation was substantively enacted in the UK to reduce the standard rate of corporation tax to 19% from 1 April 2017 and 18% from 1 April 2020. On 6 September 2017, legislation was substantively enacted in the UK to reduce the rate from 1 April 2020 down from 18% to 17%. Consequently, deferred tax has been estimated at 17% for the period to 30 September 2019.

9. Investment property

	£'000
Valuation	
At 1 October 2018 and 23 February 2018	0
Additions at cost	18,096
Disposals at cost	(1,825)
Surplus on revaluation	2,990
At 30 September 2019	**19,262**

The Company's investment properties comprise 77 new build and 21 second-hand homes primarily located in the North of England and East Anglia.

As at 30 September 2019, the fair values of the properties were based on valuations for both years which were performed by Montagu Evans, (RICS) Chartered Surveyors, on Existing-use Value for social housing, a discounted cashflow methodology. The established methodology for arriving at an EUV- SH valuation is a discounted cash flow. It allows the valuer to capture explicitly the many variables affecting the letting, management and operatives for each property over the longer term.

The key inputs and assumptions used relating to the valuation ranged as follows:

	2019
Discount Rates	5.0 – 6.5%
HPI – House Price Index	3.75%
RPI – Retail Price Index	2.7%
Staircasing rate	0.6 – 1.2%

The assumption around how much staircasing may arise in any one year relates to tenants progressively acquiring a greater share of a property they have acquired on a part buy-part rent agreement with the company.

Our investment properties are held for the long term as our customers enter into a 125- year shared ownership lease. The leases are full tenant repairing leases so the Company as no obligations in respect of repairs and maintenance.

A sensitivity analysis was performed as part of the valuation at 30 September 2019 by flexing HPI and staircasing rates on both the new build and the second-hand parts of the Company's portfolio.

Significant increases (decreases) in HPI would result in a significantly higher (lower) fair value of the Company's investment property portfolio. As an example a 0.5% upward change on HPI to 4.25% would lead to a ca. £ 1 million increase in the fair value of the new build portfolio whereas a 0.5% upward change in the staircasing rate would lead to a £ 0.7 million reduction in the fair value of the same new build portfolio.

10. Trade and other receivables

	30 September 2019 £'000	30 September 2018 £'000
Amounts owed by Parent undertakings	37	37
Sundry Debtors	32	-
	69	37

No significant impairment was deemed necessary in the current accounting period as the trade receivables balance represents amounts owed by parent undertaking.

11. Financial instruments

	30 September 2019 £'000	30 September 2018 £'000
Financial assets		
Financial assets measured at amortised cost	566	50
Financial liabilities		
Financial liabilities measured at amortised cost	17,966	-

Financial assets measured at amortised cost comprise cash, trade debtors and amounts owed by parent undertakings. Impairment on trade debtors which is disclosed in Note 10 is included within administrative expenses in the statement of comprehensive income.

Financial liabilities measured at amortised cost comprise trade creditors, accruals and other creditors. The total interest expense recognised on these financial liabilities measured at amortised cost is included in Note 8.

The Company is exposed to credit risk, market (interest) risk and liquidity risk. The Company's senior management oversees the management of these risks. The Board of Directors reviews and agrees policies for managing each of these risks as summarised below:

a) Credit risk

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 rental income from the property portfolio is due from many individual occupiers. Every occupier is assessed for affordability in accordance with the guidance from Homes England before entering into a lease. 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 and by adhering to strict affordability criteria.

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.

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 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's borrowings are repayable on the relevant maturity of the bonds and accordingly the Company manages any refinance risk at maturity. The Company aims to further mitigate liquidity risk through regular monitoring of its cash flow forecasts.

12. Creditors: Amounts falling due within one year

	30 September 2019 £'000	30 September 2018 £'000
Trade creditors	8	-
Other creditors	32	-
Accruals	9	-
	49	-

13. Creditors: amounts falling due after more than one year

	30 September 2019 £'000	30 September 2018 £'000
Secured 1.625% inflation linked 10 year Sterling Bonds	15,698	-
Less issue costs	(691)	-
Government grants	2,439	-
	17,446	-

During the year, 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 period end and at the time of approval of the accounts. 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 year, increases in accordance with the LPI Index were £273,012 and the interest payable was £234,451, giving a total income expense in the year of £507,463, shown as interest costs in the Company's income statement.

Only the £234,451 interest was payable and included in the calculation of the debt service cover ratio. The £273,012 increase due to the LPI index was added to the initial £15,424,400 to give the closing balance of £15,697,412 and this figure was tested against the £19,262,015 property valuation in the calculation of the asset cover ratio.

As at 30 September 2019, the fair value of the Secured 1.625% inflation linked 10 year Sterling Bond was £15,478,000 the fair value has been calculated by reference to its published price quotation on the London Stock Exchange where the bonds were trading at 98.6 pence.

14. Share capital

	30 September 2019 £'000	30 September 2018 £'000
Shares issued during the year and classified as equity		
Allotted, called up and fully paid		
12,500 Ordinary shares of £1 each	13	13
Allotted and called up		
37,500 Ordinary shares of £1 each	37	37
	50	50

Authorised share capital: 50,000 ordinary shares of £1 each.
The shares have attached to them full voting, dividend and capital distribution rights.

15. Reserves

Profit and loss account

Profit and loss account represents cumulative profits or losses net of dividends paid and other adjustments excluding non-distributable reserves.

Non-distributable reserves

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

16. Related party transactions

The ultimate controlling party is the immediate and ultimate parent company, Heylo Housing Group Limited.

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. During the year ended 30 September 2019 management fees amounting to £42,220 (2018: £nil) were paid by the Company. Property acquisition costs of £299,547 (2018: £nil) were charged by ResiManagement Limited in the year and capitalised in the financial statements of the company.

The only other related party is HHRP – 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).

17. Controlling party

The largest and smallest group in which the Company is consolidated is that headed by Heylo Housing Group Limited. 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.

The ultimate controlling party is the parent company.