SOPRO HOLDINGS REAL ESTATE INVESTMENT TRUST PLC

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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CORPORATE INFORMATION

DIRECTORS

Robin Baird	(Resigned on 19 February 2021)
Philip Turpin	(Resigned on 10 June 2021)
Richard Lang	
Andrew Sergeant	
Joseph Ruiz	
Sandra Wittmann	
Kelly Moore	(Appointed on 23 February 2021)
Jonathan Wilkinson	(Appointed on 10 June 2021)

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REPORT OF THE DIRECTORS

The Directors present their annual report on the affairs of SoPro Holdings Real Estate Investment Trust Plc (the "Company") and its subsidiaries (together the "Group") and the audited consolidated financial statements for the year ended 31 December 2021.

INCORPORATION

The Company was incorporated on 10 October 2014 as a public limited liability company under the Companies (Jersey) Law 1991, with registered number 116831. On 31 March 2015, the Company's shares were admitted to the official list of The International Stock Exchange ("TISE"). The shares of the Company are held by Cheyne Social Property Impact Holdings L.P. (the "Partnership"). The Partnership receives contributions from its direct investors and Feeder entities. The Group, Partnership and the Feeder entities are together the "Fund".

The Company is tax resident in the United Kingdom. With effect from 1 January 2016, the Company became a UK Real Estate Investment Trust ("REIT").

REGULATION

The Company has been formed to act as a collective investment fund authorised pursuant to the Collective Investment Funds (Jersey) Law, 1988, as an expert fund.

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

The principal activity of the Company is to invest in UK properties so as to increase the capacity of councils and social sector organisations ("SSOs") to deliver front line services. SSOs are organisations that exist primarily to deliver a positive social impact such as social housing and care facilities, and the Company will work with the SSOs to invest in existing or develop new properties, which will be purchased by the Company and leased to the SSOs. The investment objective of the Company is capital growth and income generation. The Company will aim for a balanced approach to financial return and social impact of each investment and will acquire interests only in Permitted Investments as defined in the Company's Information Memorandum.

INVESTMENTS

During the year, the Group in line with its wind up process, disposed of the following investments. Please refer to the related party note for further disclosures on the sale process and independence considerations:

i) A sale of Touchpoint Housing (FH) S.à.r.l. for a total price of £22,470,000 to Cheyne Impact Real Estate Trustee Limited ("CIRET"), resulting in a realised gain on disposal of £2,595,688;

ii) Investment property disposals ('asset sales') of Touchpoint Housing (FCF-DeGl) S.à.r.l. properties, for a total price of £1,875,000 to Touchpoint Housing 1.0 GP Limited (a CIRET affiliate), resulting in a realised gain on disposal of £145,000;

iii) Investment property disposals ('asset sales') of Touchpoint Housing (LOMP) Ltd ("LOMP") properties, for a total price of £1,215,000 to Touchpoint Housing 1.0 GP Limited (a CIRET affiliate), resulting in realised gain on disposal of £40,000.
Separately, the Group sold two investment properties owned by LOMP for a total price of £178,309 via auction, resulting in a realised loss on disposal of £51,691, on their carrying value. The sale of the LOMP properties generated a total realised loss of £11,691;

iv) One investment property in Touchpoint Housing (LBB) Ltd ("LBB") was sold for a total of £382,267 via a compulsory repurchase by its freeholder, resulting in a realised gain on sale of £12,667; and

v) Investment property disposals ('asset sales') of Touchpoint Housing (OBR) Ltd properties, for a total price of £10,050,000 to Luton Borough Council, resulting in a realised loss on disposal of £1,620,000.

During the year, the Group in line with its wind up process, continued to receive offers for the disposal of its remaining properties and subsidiaries.

REPORT OF THE DIRECTORS - (CONTINUED)

RESULTS AND DIVIDENDS

The results for the year are shown on page 14. On 24 June 2021, the Company paid a dividend of £5,773,504 (2020: £4,945,555) to its sole shareholder. The dividend was the property income distribution ("PID") for the year ended 31 December 2020. Subsequently in September 2021, the Company paid a return of capital distribution amounting to £20 million to its sole shareholder.

SECRETARY

The Secretary of the Company during the year and subsequently was Sanne Secretaries Limited.

DIRECTORS

The Directors of the Group during the year and subsequently were:

Robin Baird	(Resigned on 19 February 2021)
Philip Turpin	(Resigned on 10 June 2021)
Richard Lang	
Andrew Sergeant	
Joseph Ruiz	
Sandra Wittmann	
Kelly Moore	(Appointed on 23 February 2021)
Jonathan Wilkinson	(Appointed on 10 June 2021)

None of the Directors hold any direct personal interest in the shares of the Company.

GOING CONCERN

The Company's business activities are set out in the 'Principal activities and annual review of the business' section of the Report of the Directors on page 3. The Directors have decided to prepare the consolidated financial statements on a basis other than that of a going concern, which assumes that the Group will terminate and cease operations within the foreseeable future. As a result, assets are stated at their net realisable values and liabilities are stated at their settlement values and accordingly non-current assets/liabilities are classified as current assets/liabilities. No adjustments have been made to the carrying values of the assets/liabilities.

The term of the Partnership was due to expire on 31 March 2022. Subsequent to the year end on 9 February 2022, the term of the Partnership was extended to 30 September 2023 (updated expiry date). The Group is in a period of managed wind down to the updated expiry date, with the objective to realise its assets at the best available prices. See further details on the sales of assets under investment section. The financial statements do not include any provision for the future costs of terminating the business of the Group except to the extent that such costs were committed at the end of the reporting period.

The Coronavirus outbreak has had no material impact on the Directors' going concern assessment, due to the nature of the Group's operation with its revenue stream supported by government funded programmes. The Directors will continue to manage the wind down process. Please refer to the subsequent events note for any update on the status of the wind down process.

MARKET CONSIDERATIONS

On 21 February 2022, the Russian Federation officially recognised two breakaway regions in eastern Ukraine and authorised the use of military force in those territories. On 24 February 2022, Russian troops invaded Ukraine and commenced military operations in multiple locations. These ongoing operations have led to casualties, significant dislocation of the population, damage to infrastructure and disruption to economic activity in Ukraine and indirectly other global economies. As the invasion progresses, there may be more adverse effects on the global markets and economies arising from the disruption of oil and gas supplies from these territories and sanctions implemented. The outcome of the Russian invasion of Ukraine is still highly uncertain. Based on the situation as at the date of these financial statements, the Directors expect no material impact on these financial statements.

The coronavirus (COVID-19) outbreak continues to cause global economic disruption across all industries and sectors.

In the opinion of the Directors, the Coronavirus outbreak is not likely to have a material adverse effect on the financial position and results of the Group, despite the challenges on developments, purchase programmes and portfolio sales highlighted in the Investment Adviser's report. As such no adjustment for any potential impact has been made in these financial statements.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the annual report and consolidated financial statements in accordance with applicable law and regulations.

Pursuant to the Companies (Jersey) Law 1991 (the "Law"), the Group is required to prepare consolidated financial statements for each financial year. The Directors have elected to prepare the consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The consolidated financial statements are required by Law to give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that year.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the IASB's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS.

However, Directors are also required to:

- properly select and consistently apply accounting policies;
- make judgments and estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of a particular transaction, other events and conditions on the Group's financial position and financial performance; and
- make an assessment of the Group's ability to continue as a going concern. (As explained in note 2, the Directors do not believe that it is appropriate to prepare these financial statements on a going concern basis).

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

The Directors confirm they have complied with the above requirements throughout the year and subsequently.

BY ORDER OF THE BOARD

Director: **Andrew Sergeant**

Date: 25/04/2022

REPORT OF THE INVESTMENT ADVISER

The Fund is a socially responsible landlord that works with social sector organisations to deliver additional homes and facilities required to address the UK's social challenges. The Fund raised commitments from a combination of institutional investors (including pension funds, insurance companies and endowments/foundations/charities), family offices and high net worth individuals. Key principals of Cheyne Capital have also invested in the Fund.

The Fund committed to a diversified portfolio of investments across the UK, with a total investment value of £157.8 million. All the investments to date have involved long-dated (15 years plus) Consumer Price Index linked fully repairing leases against residential properties.

The Fund is now in its realisation period and the investment team are working to achieve an exit of all assets. After interviewing and appraising four candidates to take the portfolio to market, Savills were selected and an extensive data room was prepared in order to take all properties to market. The COVID-19 situation brought some challenges to the process, due to the vulnerable nature of some of our tenants, a number of whom were shielding, but the whole portfolio was ultimately brought to market in September 2020.

In Q1 2021, the first sale was concluded, with the Thera, P3 and Luton OMP predominantly supported living assets sold as a single portfolio (the Supported Living Portfolio) to Cheyne's successor impact real estate strategy, the Cheyne Impact Real Estate Trust, which emerged as the highest bidder in a fully competitive auction process. The sale crystallised a realised gross IRR and multiple of 8.4% and 1.34x on the Supported Living Portfolio.

In Q4 2021, the second sale was concluded, with the Luton OBR investment – developed as a new build by the Fund – ultimately sold back to Luton Borough Council, the headlease counterparty on the properties. Under the terms of the lease, Luton Borough Council was entitled to a profit share of an external sale. As we continued our extensive sale negotiations with bidders, the net position of selling the assets to Luton Borough Council itself versus selling to an external counterparty became comparable, and we ultimately agreed to sell the property back to Luton Borough Council. While the investment's impact credentials were coded into the lease agreement and were expected to remain in place irrespective of the new owner, taking ownership back to the Council provides a high impact legacy for the investment. From a financial perspective, the sale crystallised a realised gross IRR and multiple of 9.0% and 1.33x respectively on the investment.

Looking forward, we are facing challenges with the sales process of the remaining assets, falling into three categories:

(i) Impact of the financial troubles at Croydon Council

Previous bids on the Croydon assets have not translated into realised sales. Our sales agent, Savills, believes this reflects concerns regarding the Council's financial stability and specifically its credit rating (which could impact the ability of a buyer to take financing against the position), after it issued a 'Section 114 notice' (effectively the equivalent of filing for bankruptcy protection) in November 2020. The rent obligations and payments as per the lease agreement, as expected, remained unaffected by this notice, as the properties provide housing for vulnerable people and/or those at risk of homelessness or domestic abuse, hence the Council cannot default on the lease obligations for these assets. Furthermore, the Council exited Section 114 in March 2021 after receiving a £120m government bailout. Nevertheless, the bidders have remained focused on the perceived credit risk of the associated council, and the situation has not been a positive backdrop to the sales process.

Following discussions with the sales agent, we plan to remarket the assets to investors following the publication of the Council's year end financial accounts in Q2 2022, hoping that these accounts and the continued financial stability at the council will dampen concerns as time passes. We are in active discussions with potential bidders and there is some interest, which we hope to translate into a formalised sale process later this year.

REPORT OF THE INVESTMENT ADVISER - (CONTINUED)

(ii) Awaiting finalisation of delayed developments

The bid on the Sheffield assets has been progressed to agreement and execution of the Heads of Terms. We expect this will proceed to a realised sale once we have finalised discussions with the contractor to settle the final account and close out end of defects. We are continuing to work with the contractor to finalise these discussions, but expect the completion of the sale is most likely to occur in Q2 2022 which aligns with the current schedule for the completion of works.

Meanwhile, the Bristol development has experienced significant labour and material shortages and project completion has now been revised to Q3 this year. The Bristol investment comprises:

– 23 homes for direct market sale, mostly under the help to buy scheme, of which 21 are under offer, with formal exchange occurring as the associated development phases complete, and

– 61 homes are under a 40-year lease to Bristol & Bath Regional Capital. We have received a bid from a long-income investor for these leased assets and are continuing to work with the bidder to agree terms. Given the development stage that the project is in, a formal sale is only expected to be achieved following project completion.

(iii) Complexities of selling leased assets

We have been in discussions with potential bidders on the Barnet assets, but have observed the sale of the property assets together with the lease has made for a complex process, as bidders undertook their own reviews of the lease agreement and in some cases sought to make changes which are unrealistic to expect a local council to make. A new summary of the lease terms to act as a guide to bidders has been issued, and the remarketing process has commenced. Whilst there has been initial interest, a formal bid is yet to be received. We remain in discussions with the parties to understand their terms and conditions ahead of receiving formal offers.

Given the extended timeframe for the pending sale of the remaining assets, shortly after year end, Cheyne reached out to investors seeking approval for an additional extension to the term of the Fund. This provides the ability for Cheyne to act as investment manager rather than simply liquidator, which we believe is important as we have assets still under development where more active work is required. Notably, the extension will be accompanied by a further reduction in management fees, for an additional nine months, after which management fees will fall to zero.

The investment team remain highly committed to achieving the most optimal exit from the remaining assets, from a financial, timing and impact perspective.

Cheyne Capital Management (UK) LLP
Investment Adviser
Date: 25/04/2022

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOPRO HOLDINGS REAL ESTATE INVESTMENT TRUST PLC

Report on the audit of the financial statements

1. Opinion

In our opinion the financial statements of Sopro Holdings Real Estate Investment Trust Plc (the 'parent company') and its subsidiaries (the 'group'):

- give a true and fair view of the state of the group's affairs as at 31 December 2021 and of the group's profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB); and
- have been properly prepared in accordance with Companies (Jersey) Law, 1991.

We have audited the financial statements which comprise:

- the consolidated statement of comprehensive income;
- the consolidated statement of financial position;
- the consolidated statement of changes in equity;
- the consolidated statement of cash flows; and
- the related notes 1 to 24.

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

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed 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.

3. Emphasis of matter- Financial statements prepared other than on a going concern basis

We draw attention to Note 2 to the financial statements which explains that the directors intend to liquidate the group and therefore do not consider it to be appropriate to adopt the going concern basis of accounting in preparing the financial statements. Accordingly, the financial statements have been prepared on a basis other than that of a going concern as described in Note 2. Our opinion is not modified in this respect of this matter.

4. Summary of our audit approach

Key audit matters	The key audit matter that we identified in the current year was related to investment property valuations.
Materiality	The materiality that we determined for the group financial statements was £3,200,000 (2020: £3,600,000) which was approximately 2% (2020:2%) of Net Asset Value.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the group audit engagement team for the whole group.
Significant changes in our approach	There have been no significant changes in our audit approach compared with the prior year.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, 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 forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Investment property valuation

Key audit matter description	The group holds investment properties at fair value totalling £131,930,965 as at 31 December 2021 (2020: £164,392,264). This balance is material to the group as it accounts for 83% (2020: 87%) of total assets. The investment property valuations are complex and involve a significant level of judgement and are classified as level 3 in the fair value hierarchy. The main judgement is that these are specialist properties rented to local authorities and housing associations and there are a limited number of comparable transactions to determine an appropriate yield and discount rate to apply. Given the level of judgement involved in determining the valuation of underlying investment properties, we consider the matter to be subject to management bias. The group involves an independent external valuer to assist in determining the valuation of investment properties as at 31 December 2021. Further details are included within the note 3 on critical accounting estimates and judgements and notes 4 and 5 to the financial statements.
How the scope of our audit responded to the key audit matter	In response to this risk: • We tested the relevant controls over investment property valuations. • We involved our internal valuation specialists to assess the methodology

	applied and material assumptions made (including yield rate and discount rate) for a sample of properties. • We tested the accuracy and completeness of data provided by management to the group's valuer. • We assessed other available market information to identify any contradictory evidence to assumptions made. • We assessed the competence, capabilities and objectivity of the group's valuer by assessing whether the valuers were RICS approved and whether there are any conditions or specific assumptions in the letter of engagement. • We assessed the adequacy and completeness of disclosures presented in the financial statements.
Key observations	As a result of our work, we concluded that the valuation of the investment properties portfolios is reasonable.

6. Our application of materiality

6.1. Materiality

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

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

Group materiality	£3,200,000 (2020: £3,600,000)
Basis for determining materiality	2% of net assets (2020: 2%)
Rationale for the benchmark applied	Net assets represent the residual value of the shareholder's interest. Net assets have been used as this is the most suitable benchmark given the nature of the business which is to gain capital appreciation as well as income from its investment. As such the investors' focus and interest are on the net asset value.

6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 70% of group materiality for the 2021 audit (2020: 70%). In determining performance materiality, we considered our risk assessment including our assessment of the group's overall control environment. Our past experience of the audit has indicated a low number of uncorrected misstatements in prior periods.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £160,000 (2020: £180,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

Our audit was scoped by obtaining an understanding of the group and its environment, including internal control, and assessing the risks of material misstatement. The group is considered to be a single component, as the parent and its subsidiaries operate in the same environment. Audit work to respond to the risks of material misstatement was performed directly by the group audit engagement team.

7.2. Our consideration of the control environment

Our risk assessment procedures include obtaining an understanding of relevant controls to the audit.

Consistent with previous years, we have obtained an understanding of relevant manual controls over rental income recognition, investment property acquisitions, investment property valuations and financial reporting. We did not plan to test controls and therefore we adopted a non-controls reliance approach to our testing.

8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of directors

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

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

10. Auditor's responsibilities for the audit of the financial statements

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

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

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance;
- results of our enquiries of management and the Board about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including tax and valuations specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the valuation of investment properties. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the group financial statements. The key laws and regulations we considered in this context included the Companies (Jersey) Law, 1991, TISE Listing Rules and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. This included UK Real Estate Investment Trust regime requirements.

11.2. Audit response to risks identified

As a result of performing the above, we identified investment property valuation as a key audit matter related to the potential risk of fraud. The key audit matter section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter. In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management and the Board of Directors concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance and reviewing correspondence with Jersey Financial Service Commission; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Matters on which we are required to report by exception

12.1. Adequacy of explanations received and accounting records

Under the Companies (Jersey) Law, 1991 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- proper accounting records have not been kept, or proper returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

13. Use of our report

This report is made solely to the company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law, 1991. 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.

David Becker

For and on behalf of Deloitte LLP

Jersey, United Kingdom

28 April 2022

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	31-Dec-21	31-Dec-20
REVENUE		**£**	**£**
Rental income	15	5,369,739	6,193,331
Other income		261,012	207,923
		5,630,751	**6,401,254**
EXPENSES			
Service charge expenses		(91,719)	(56,010)
Valuation fees		-	(49,266)
Insurance fees	11	(3,125,500)	(103,815)
Property operating expenses	11	(632,022)	(25,416)
Administrative expenses	11	(367,441)	(426,954)
Audit fees	11	(166,100)	(168,000)
Legal and other professional expenses	11	(2,166,637)	(1,298,495)
Director fees	11	(24,198)	(35,619)
Regulatory and annual listing fees		(17,951)	(20,609)
Other operating expenses		(94,630)	(16,885)
		(6,686,198)	(2,201,069)
OPERATING (LOSS)/PROFIT		**(1,055,447)**	**4,200,185**
Net gain on fair value adjustment on investment properties	5	603,386	512,211
Realised loss on disposal of investment properties	5	(1,474,424)	-
Realised gain on disposal of subsidiary	20	2,595,688	-
Net operating profit		**669,203**	**4,712,396**
NET FINANCE COSTS			
Finance revenue		-	1,817
Finance costs		(32,032)	(13,099)
Interest on borrowings		-	(35,272)
Amortisation of loan costs		-	(8,614)
Net finance costs		**(32,032)**	**(55,168)**
INCOME BEFORE TAX		637,171	4,657,228
Income tax charge	12	(9,005)	(22,075)
Withholding tax		-	116,556
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**628,166**	**4,751,709**
Attributable to:			
Equity holders of the Group		603,501	4,982,284
Non-controlling interests	17	24,665	(230,575)
Basic and diluted earnings per share	18	4.51	33.16

All items dealt with in arriving at the consolidated statement of comprehensive income for the year ended 31 December 2021 and 31 December 2020 relate to discontinuing operations.

(The notes on pages 19 to 42 form part of these audited consolidated financial statements)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2021

	Notes	31-Dec-21	31-Dec-20
		£	£
ASSETS			
Current assets			
Investment properties	4,5	131,930,965	164,392,264
Investment in non Group entity	4	62	36
Prepayments		192,151	141,476
Trade and other receivables	8	405,068	1,101,649
Cash and cash equivalents	7	31,855,380	22,631,779
Total current assets		164,383,626	188,267,204
TOTAL ASSETS		**164,383,626**	**188,267,204**
EQUITY AND LIABILITIES			
Current liabilities			
Trade and other payables	9	5,590,186	5,172,390
Total current liabilities		5,590,186	5,172,390
Equity			
Share capital	13	1,337	1,502
Share premium	13	145,436,086	165,435,921
Retained earnings		9,147,557	14,317,560
Total equity attributable to equity holders of the Group		154,584,980	179,754,983
Non-controlling interests	17	4,208,460	3,339,831
Total equity		**158,793,440**	**183,094,814**
TOTAL EQUITY AND LIABILITIES		**164,383,626**	**188,267,204**

The audited consolidated financial statements were approved and authorised for issue by the Directors on the day of 25 APR 22 2022 and were signed on its behalf by:

Director

(The notes on pages 19 to 42 form part of these audited consolidated financial statements)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2021

		Attributable to equity holders of the Group					
	Note	Share Capital £	Share Premium £	Retained Earnings £	Total £	Non-controlling interest £	Total Equity £
Balance at 1 January 2020		**1,294**	**140,436,129**	**14,280,831**	**154,718,254**	**377,856**	**155,096,110**
Issue of shares/capital	13,17	208	24,999,792	-	25,000,000	3,192,550	**28,192,550**
Dividend paid	13	-	-	(4,945,555)	(4,945,555)	-	**(4,945,555)**
Total comprehensive income for the year		-	-	4,982,284	4,982,284	(230,575)	**4,751,709**
Balance at 31 December 2020		**1,502**	**165,435,921**	**14,317,560**	**179,754,983**	**3,339,831**	**183,094,814**
Balance at 1 January 2021		**1,502**	**165,435,921**	**14,317,560**	**179,754,983**	**3,339,831**	**183,094,814**
Issue of capital	17	-	-	-	-	843,964	**843,964**
Share capital repurchased	13	(165)	(19,999,835)	-	(20,000,000)	-	**(20,000,000)**
Dividend paid	13	-	-	(5,773,504)	(5,773,504)	-	**(5,773,504)**
Total comprehensive income for the year		-	-	603,501	603,501	24,665	**628,166**
Balance at 31 December 2021		**1,337**	**145,436,086**	**9,147,557**	**154,584,980**	**4,208,460**	**158,793,440**

(The notes on pages 19 to 42 form part of these audited consolidated financial statements)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	Year ended 31-Dec-21 £	Year ended 31-Dec-20 £
Cash flows from operating activities			
Total comprehensive income for the year before tax and non controlling interest		637,171	4,657,228
Adjustments for:			
Finance costs		32,032	13,099
Interest on borrowings		-	35,272
Amortisation of loan costs		-	8,614
Net gain on fair value adjustment on investment properties	5	(603,386)	(512,211)
Realised loss on investment property disposals		1,474,424	-
Realised gains on subsidiary disposal		(2,595,688)	-
Income tax paid	12	(9,005)	(22,075)
Changes in working capital:			
Increase in prepayments		(50,675)	(18,976)
Decrease in trade and other receivables		1,540,545	4,389,077
Increase in trade and other payables		417,772	903,832
		843,190	9,453,860
Finance costs paid		(32,032)	(48,371)
Net cash generated from operating activities		**811,158**	**9,405,489**
Acquisition of investment properties	5	-	(13,644,911)
Capital expenditure on investment properties	5	(2,125,315)	(1,377,389)
Proceeds from disposal of investment properties	5	13,700,576	-
Proceeds from disposal of subsidiaries	20	22,610,686	-
Net cash generated from/(used in) investing activities		**34,185,947**	**(15,022,300)**
Cash flows from financing activities			
Proceeds from issue of share capital	13	-	25,000,000
Repurchase of share capital	13	(20,000,000)	-
Repayment of borrowings		-	(5,132,631)
Dividend paid	13	(5,773,504)	(4,945,555)
Net cash (used in)/generated from financing activities		**(25,773,504)**	**14,921,814**
Net increase in cash and cash equivalents		9,223,601	9,305,003
Cash and cash equivalents at the beginning of the year		22,631,779	13,326,776
Cash and cash equivalents at the end of the year		**31,855,380**	**22,631,779**

(The notes on pages 19 to 42 form part of these audited consolidated financial statements)

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

1. GENERAL INFORMATION

SoPro Holdings Real Estate Investment Trust Plc (the "Company") was incorporated on 10 October 2014 as a public limited liability company under the Companies (Jersey) Law 1991, with registered number 116831. On 31 March 2015, the Company's shares were admitted to the official list of The International Stock Exchange ("TISE"), formerly known as Channel Islands Securities Exchange Authority Limited. Effective 1 January 2016, the Company gave notice that it expected to satisfy the relevant conditions for entry to become a UK Real Estate Investment Trust ("REIT"). HMRC acknowledged this declaration on 8 January 2016. The Company and its subsidiaries are together (the "Group").

The principal activity of the Company is to invest in UK properties so as to increase the capacity of councils and social sector organisations ("SSOs") to deliver front line services. SSOs are organisations that exist primarily to deliver a positive social impact such as social housing and care facilities, and the Company will work with the SSOs to invest in existing or develop new properties, which will be purchased by the Company and leased to the SSOs. The investment objective of the Company is capital growth and income generation. The Company will aim for a balanced approach to financial return and social impact from each investment and will acquire interests only in Permitted Investments as defined in the Company's Information Memorandum.

Investment Adviser Registration

Cheyne Capital Management (UK) LLP (the "Investment Adviser"), a United Kingdom limited liability partnership, is registered with the Commodity Futures Trading Commission (CFTC) and National Futures Association (NFA).

The Investment Adviser is authorised by the Financial Conduct Authority as an Alternative Investment Fund Manager (AIFM) under the AIFMD.

The Investment Adviser is registered with the U.S. Securities and Exchange Commission (SEC) under Section 203 of the Investment Advisors Act of 1940.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all periods presented.

a) Basis of preparation

These audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), International Financial Reporting Interpretations Committee ("IFRIC") and the Companies (Jersey) Law 1991.

Under Article 105(11) of the Companies (Jersey) Law 1991, the Directors of a holding company need not prepare separate accounts (i.e. Company only accounts) if consolidated accounts of the Company are prepared, unless required to do so by the members of the Company by ordinary resolution. The members of the Company have not passed a resolution requiring separate accounts and in the Directors' opinion, the Company meets the definition of a holding company. As permitted by law, the Directors have opted not to prepare separate accounts.

b) Preparation of consolidated financial statements

The consolidated financial statements have been prepared on a basis other than that of a going concern. As a result, assets are stated at their net realisable values and liabilities are stated at their settlement values and accordingly non-current assets/liabilities are classified as current assets/liabilities. No adjustments have been made to the carrying values of the assets/liabilities as a result of preparing on a basis other than that of a going concern. Further details are disclosed in note 2e.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Directors to exercise judgement in the process of applying the Company's accounting policies. Changes in assumptions may have a significant impact on the consolidated financial statements in the year the assumptions changed. The Directors believe that the underlying assumptions are appropriate and that the Company's consolidated financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

b) Preparation of consolidated financial statements - (continued)

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Subsidiaries are all entities including the portfolio companies over which the Group has control.

The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. The inclusion of the subsidiaries into the consolidated financial statements is based on consistent accounting and valuation methods for similar transactions and other occurrences under similar circumstances. All the Group's subsidiaries have 31 December as their year end. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IFRS 9 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statement of comprehensive income.

For acquisitions of subsidiaries not meeting the definition of a business, the Group allocates the cost between the individual identifiable assets and liabilities in the Group based on their relative fair values at the date of acquisition. Such transactions or events do not give rise to goodwill.

Inter-company transactions, balances and unrealised gains on transactions between the Group entities are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Non-controlling interests in subsidiaries are identified separately from the Group’s equity therein. Those interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets, are measured at fair value or at the non-controlling interests’ proportionate share of the fair value of the acquiree’s identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Other non-controlling interests are initially measured at fair value. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests’ share of subsequent changes in equity.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of the subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

Subsidiaries

The list of the subsidiaries which are included in the Group's consolidated financial statements with their respective legal ownership percentages by the Group is as follows:

Name of subsidiary	Country of incorporation	Activity	SSO	Ownership proportion 31-Dec-21	31-Dec-20
SoPro Holdings S.à.r.l.	Luxembourg	Holding company	N/A - as holding company	0%	100%
Touchpoint Housing (OBR) Ltd	England and Wales	Property holding	Local authority	0%	100%
Touchpoint Housing (LOMP) Ltd	England and Wales	Property holding	Local authority	0%	100%
Touchpoint Housing (FCF-DeGl) S.à.r.l.	Luxembourg	Property holding	Not-for-Profit organisation	0%	100%
Touchpoint Housing (FH) S.à.r.l.	Luxembourg	Property holding	Not-for-Profit organisation	0%	100%
Touchpoint Housing (SKI) Ltd	England and Wales	Property holding	Housing Association	100%	100%
Touchpoint Housing (CLR) Ltd	England and Wales	Property holding	Local authority	100%	100%
Touchpoint Housing (CNR) Ltd	England and Wales	Property holding	Local authority	100%	100%
Touchpoint Housing (CWH) Ltd	England and Wales	Property holding	Local authority	100%	100%
Dunmail 2017 Project Limited	England and Wales	Property holding	Local authority	90%	90%
Touchpoint Housing (LBB) Ltd	England and Wales	Property holding	Local authority	100%	100%
Elderberry Walk Management Company Limited	England and Wales	Property management	Local authority	90%	90%
SoPro Holdings Limited	Jersey	Holding company	N/A - as holding company	100%	0%

Disposal of subsidiary investments

During the year, the Group in line with its wind up process, had disposed of a subsidiary, Touchpoint Housing (FH) S.à.r.l. and completed the liquidations of Touchpoint Housing (LOMP) Ltd and Touchpoint Housing (FCF-DeGL) S.à.r.l. , whose investment properties had been sold. The Group is currently in the process of liquidating Touchpoint Housing (OBR) Ltd, whose investment properties had also been sold. The disposal process is still ongoing in connection with the remaining

Effective 1 September 2021, the domicile of the Group's subsidiary SoPro Holdings S.à.r.l. ('former subsidiary'), was changed to Jersey following the divestment and liquidation of the Luxembourg based subsidiaries. A new subsidiary SoPro Holdings Limited was incorporated in Jersey and acquired the remaining assets and equity of the former subsidiary.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

c) Adoption of new and revised standards

New Accounting Standards, amendments to existing Accounting Standards and/or interpretations of existing Accounting Standards (separately or together, "New Accounting Requirements") adopted during the current year

The Directors have assessed the impact, or potential impact, of all New Accounting Requirements. In the opinion of the Directors, there are no mandatory New Accounting Requirements applicable in the current year that had any material effect on the reported performance, financial position or disclosures of the Group. Consequently, no mandatory New Accounting Requirements are listed.

Non-mandatory New Accounting Requirements not yet adopted

All non-mandatory New Accounting Requirements in issue are either not yet permitted to be adopted or, in the Directors' opinion, would have no material effect on the reported performance, financial position, or disclosures of the Group and consequently have neither been adopted, nor listed.

Other non-mandatory New Accounting Requirements, are either not yet permitted to be adopted, or would have no material effect on the reported performance, financial position, or disclosures of the Group and consequently have neither been adopted and are also listed below:

* IFRS 17 - Effective 1 January 2023	• Insurance contracts
* IFRS 10 and IAS 28 (amendments) - Effective date not yet set	• Sale or contribution of assets between an investor and its associate or joint venture.
* IAS 1 (amendment)- Effective for accounting periods commencing on or after 1 January 2023 (early adoption is permitted)	• Amends the classification of liabilities as current or non-current.
* IFRS 3 (amendment)- Effective for accounting periods commencing on or after 1 January 2022 (early adoption is permitted)	• Amends reference to the conceptual framework
* IAS 16 (amendment)- Effective for accounting periods commencing on or after 1 January 2022 (early adoption is permitted)	• Amends how to treat proceeds before intended use
* IAS 37 (amendment)- Effective for accounting periods commencing on or after 1 January 2022 (early adoption is permitted)	• Onerous contracts-cost of fulfilling a contract
* IAS 8 (amendment)- Effective for accounting periods commencing on or after 1 January 2023 (early adoption is permitted)	• Definition of accounting estimates
* IAS 12 (amendment)- Effective for accounting periods commencing on or after 1 January 2023 (early adoption is permitted)	• Further exmption from the initial recognition exemption.
* Annual Improvements to IFRS Standards 2018-2020 Cycle- Effective for accounting periods commencing on or after 1 January 2022 (early adoption is permitted)	• Amendments to IFRS 1First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases and IAS 41 Agriculture
* Amendments to IAS 1 and IFRS Practice Statement 2- Effective for accounting periods commencing on or after 1 January 2023 (early adoption is permitted)	• Disclosure of Accounting Policies-changes requirments from disclosing 'significant' to 'material'.

FOR THE YEAR ENDED 31 DECEMBER 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

d) Income and Cash flow statements

The Group presents its consolidated statement of comprehensive income by nature of expense. The Group reports cash flows using the indirect method.

The acquisitions of investment properties are disclosed as cash flows from investing activities because this most appropriately reflects the Group's business activities.

e) Going concern

The Company's business activities are set out in the 'Principal activities and annual review of the business' section of the Report of the Directors on page 3. The Directors have decided to prepare the consolidated financial statements on a basis other than that of a going concern, which assumes that the Group will terminate and cease operations within the foreseeable future. As a result, assets are stated at their net realisable values and liabilities are stated at their settlement values and accordingly non-current assets/liabilities are classified as current assets/liabilities. No adjustments have been made to the carrying values of the assets/liabilities.

The term of the Partnership was due to expire on 31 March 2022. Subsequent to the year end on 9 February 2022, the term of the Partnership was extended to 30 September 2023 (updated expiry date). The Group is in a period of managed wind down to the updated expiry date, with the objective to realise its assets at the best available prices. See further details on the sales of assets under investment section. The financial statements do not include any provision for the future costs of terminating the business of the Group except to the extent that such costs were committed at the end of the reporting period.

The Coronavirus outbreak has had no material impact on the Directors’ going concern assessment, due to the nature of the Group's operation with its revenue stream supported by government funded programmes. The Directors will continue to manage the wind down process. Please refer to the subsequent events note for any update on the status of the wind down process.

f) Dividends

Dividend distributions to the shareholders are recognised in the Group's financial statements in the period in which the dividends are approved by the Directors.

g) Foreign currencies

Functional and presentation currency

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the Group operates; its functional currency. As all investments held by the Group and financing received by the Group are in Sterling (GBP), this is considered to be the functional and presentational currency of the Group.

Foreign currency translation

Monetary assets and liabilities are translated into GBP at the rate of exchange ruling at the financial position date. Transactions in foreign currencies are translated at the foreign exchange rate prevailing at the date of the transaction. Foreign exchange gains or losses resulting from settlement of such transactions on transaction dates and from the translation at the year end exchange rates of monetary assets and liabilities denominated in foreign currencies are presented net in the consolidated statement of comprehensive income.

h) Interest income and interest expense

Interest income and expense are recognised within ‘finance income’ and ‘finance costs’ in the consolidated statement of comprehensive income using the effective interest method, except for borrowing costs relating to qualifying assets, which are capitalised as part of the cost of that asset. It includes interest income from cash and cash equivalents and assets held for investment.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument, or a shorter period where appropriate, to the net carrying amount of the financial asset or financial liability.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

i) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short term investments in an active market with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown in current liabilities in the consolidated statement of financial position.

j) Leases

Leases for which the Group is a lessor are classified as finance or operating leases. Where the Group is the lessor in an operating lease, the market value of the properties leased out are included in investment property in the consolidated statement of financial position. See below for the recognition of rental income.

Where the Group is the lessee in a finance lease, the Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

k) Revenue recognition

Revenue includes rental income, development income and recoverable expenses from properties leased to SSOs.

Rental income is measured in accordance with IFRS 16. Rental income from operating leases is net of sales taxes and VAT and is recognised on a straight-line basis over the lease term. The initial direct costs incurred in negotiating and arranging an operating lease are recognised as an expense over the lease term on the same basis as the rental income.

Contingent rents are recorded as income in periods when they are earned. Contingent rents are payments that are not fixed at the inception of the lease, for example increases arising on rent reviews. Rent reviews which remain outstanding at the period end are recognised as income, based on estimates, when it is reasonable to assume that they will be received.
Accounting policy relating to revenue from the development activities is disclosed in note 2(s).

Revenue is recognised in the accounting period in which services are rendered.

l) Investment property

Property that is held for long-term rental yields or capital appreciation or both, and that is not occupied by the Group, is classified as investment property (including property under construction for such purposes).

The Group can also acquire land for construction of investment properties.

Investment property is recognised initially at its cost, including related transaction costs and (where applicable) borrowing costs. Borrowing costs that are incurred for the purpose of acquiring, constructing or producing a qualifying investment property are capitalised as part of its cost. Borrowing costs are capitalised while acquisition or construction is actively underway and cease once the asset is substantially complete, or suspended if the development of the asset is suspended.

After initial recognition, investment property is carried at fair value. Valuations are performed as of the financial position date by professional valuers who hold recognised and relevant professional qualifications and have recent experience in the location and category of the investment property being valued. The professional valuers use recognised valuation techniques and the principles of IFRS 13.

The fair value of investment property reflects, among other things, rental income and yields from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

l) Investment property - (continued)

Changes in fair value are recognised in the consolidated statement of comprehensive income.

Where the Group disposes of a property at fair value in an arm’s length transaction, the carrying value immediately prior to the sale is adjusted to the transaction price, and the adjustment is recorded in the consolidated statement of comprehensive income within net change from fair value adjustments on investment property and net loss on fair value adjustment on non-current assets classified as held-for-sale.

m) Investment disposals

Income obtained by the sale of an investment is recognised when the significant risks and returns have been transferred to the buyer. This will normally take place on exchange of contracts unless there are significant conditions attached. For conditional exchanges, sales are recognised when these conditions are satisfied.

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

When the Group loses control of a subsidiary, the gain or loss on disposal recognised in profit or loss in the period the control is lost, is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary and any non-controlling interests.

n) Financial assets

Financial assets are classified as financial assets at fair value through profit or loss, fair value through other comprehensive income (FVOCI) or amortised cost, as appropriate. The Group determines the classification of its financial assets at initial recognition and is driven by both the Group's business model for managing the financial asset and the contractual cash flow characteristics of the financial asset. When financial assets are recognised initially, they are measured at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Financial assets are derecognised only when the contractual rights to the cash flows from the financial asset expire or the Group transfers substantially all risks and rewards of ownership.

The Group’s financial assets recognised in the statement of financial position consist of trade and other receivables and cash and cash equivalents.

After initial recognition these financial assets are subsequently measured at amortised cost using the effective interest method less provision for impairment.

IFRS 9's impairment requirements use more forward-looking information to recognise expected credit losses - the 'expected credit loss (ECL) model'. Instruments within scope include loans and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables, contract assets recognised and measured under IFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss. Recognition of credit losses is no longer dependent on the Company first identifying a credit loss event. Instead the Company considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

• financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk (‘Stage 1’);

• financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low (‘Stage 2’) and

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

n) Financial assets - (continued)

• ‘Stage 3’ would cover financial assets that have objective evidence of impairment at the reporting date.'12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second and third category. Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

If in a subsequent period the amount of the impairment loss/expected credit loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. Any subsequent reversal of an impairment loss/expected credit loss is recognised in the consolidated statement of comprehensive income.

Derivative financial instruments are classified as financial assets at fair value through profit or loss and comprise of put options for property acquisitions held during the year and an interest rate cap (see note 11). Derivatives are initially recognised at fair value on the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. If the fair value of the put options result in an asset position then any movements in the fair value of the asset will be recognised within net changes from fair value adjustments on financial derivatives within the consolidated statement of comprehensive income. If the fair value results in a liability position then movement in the fair value will be recognised within the consolidated statement of comprehensive income as net changes from fair value adjustments on financial derivatives.

The Group does not apply hedge accounting rules in accordance with IFRS 9 Financial Instruments: Recognition and Measurements ("IFRS 9”). Recognition of derivative financial instruments takes place when the economic hedging contracts are entered into. They are measured initially at fair value. Transaction costs are expensed to the consolidated statement of comprehensive income as finance costs. Gains and losses on derivatives are recognised in the consolidated statement of comprehensive income. Interest income and expenses on derivatives are included in the consolidated statement of comprehensive income in finance income and finance costs respectively.

o) Financial liabilities

Liabilities within the scope of IFRS 9 are classified as financial liabilities at fair value through profit or loss or other liabilities, as appropriate.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or has expired. All loans are classified as other liabilities. Initial recognition is at fair value less directly attributable transaction costs. After initial recognition, interest-bearing loans are subsequently measured at amortised cost using the effective interest method (see the accounting policy on ‘Borrowings’).

Financial liabilities include trade and other payables and borrowings and are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method. The fair value of a non-interest bearing liability is its discounted repayment amount. If the due date of the liability is less than one year, discounting is omitted and its amortised cost is the same as the fair value on date of origination given the short length of time between origination and date of settlement.

p) Provisions

Provisions are recognised when:

- The Group has a present legal or constructive obligation as a result of past events;
- It is probable that an outflow of resources will be required to settle the obligation; and
- The amount can be reliably estimated.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as finance costs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

q) Taxation

The Group operates as a REIT and therefore profits and gains from its qualifying property rental business are exempt from direct taxation provided the REIT conditions are met.

Current tax is recognised in the consolidated statement of comprehensive income for profit or loss not exempt under UK-REIT regulations, except to the extent that it relates to items recognised directly in other comprehensive income or equity in which case, the tax is also recognised in other comprehensive income or equity. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the date of the consolidated statement of financial position in the countries where the Group operates.

Deferred income tax is provided using the liability method on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which deductible temporary differences, carried forward tax credits or tax losses can be utilised. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities. In determining the expected manner of realisation of an asset the Directors consider that the Group will recover the value of investment property through sale. Deferred income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss.

r) Share capital and reserves

Shares and reserves are classified as equity when there is no obligation to transfer cash or other assets.

s) Construction of residential properties

The Group constructs and sells residential properties under long-term contracts with customers. Such contracts are entered into before construction of the residential properties begins. Under the terms of the contracts, the Group is contractually restricted from redirecting the properties to another customer and has an enforceable right to payment for work done. Revenue from construction of residential properties is therefore recognised over time on a cost-to-cost method, i.e. based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs. The directors consider that this input method is an appropriate measure of the progress towards complete satisfaction of these performance obligations under IFRS 15.

The Group becomes entitled to invoice customers for construction of residential properties based on achieving a series of performance-related milestones. When a particular milestone is reached the customer is sent a relevant statement of work signed by a third party assessor and an invoice for the related milestone payment. The Group will previously have recognised a contract asset for any work performed. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer. If the milestone payment exceeds the revenue recognised to date under the cost-to-cost method then the Group recognises a contract liability for the difference. There is not considered to be a significant financing component in construction contracts with customers as the period between the recognition of revenue under the cost-to-cost method and the milestone payment is always less than one year.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The Group makes estimates and judgements that affect the reported amounts of assets and liabilities within the financial period. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

i) Principal judgements underlying management's estimation of fair value

Estimates

The Group uses external professional valuers to determine the investment property fair value estimates. The primary source of evidence for investment property valuations should be recent, comparable market transactions on an arm's length basis. However, the valuation of the Group's investment property portfolio is inherently subjective, as it is made on the basis of assumptions made by the valuers which may not prove to be accurate.

The investment properties have been valued by the appointed external valuer, CBRE Limited ("CBRE"), as described below. By necessity a valuation requires subjective judgements that, even if logical and appropriate, may differ from those made by a purchaser or another party undertaking a valuation.

The Group's investment properties are stated without adjustment at the fair value calculated by the independent valuer using a combination of the market comparable approach and the income approach for tenanted investment properties and for the investment properties not tenanted and undergoing refurbishment work, fair value is calculated as acquisition cost plus refurbishment costs incurred. The valuer derives a residual value for the investment property having considered the planned use and estimating the future value of the units with reference to information in the market for comparable properties gathered from numerous sources including but not limited to other agents and the Land Registry database subscribed to by the valuer. In estimating the fair value of the investment property under development, the highest and best use of the property was considered to be the planned future use. In estimating the fair value of the other investment properties, the highest and best use of the property is considered to be the current use. The Directors are entitled to rely upon and have relied upon the valuations provided by the independent valuer, but are not bound by such valuations.

The Directors have considered the impact of COVID-19 on the fair value calculated and believe that there is no impact.

The Directors are satisfied that this independent valuation is the best available estimate of the fair value of the Group's investment properties as at 31 December 2021 and 31 December 2020.

Please refer to note 4 for sensitivity disclosures on investment properties.

ii) Judgement on lease classifications

Judgements have been used to classify whether leases are finance and operating leases, especially where the lessees have the option to purchase at the end of the lease terms.

iii) Principal judgements underlying the REIT status

SoPro Holdings Real Estate Investment Trust Plc obtained REIT status in 2016 and does not pay tax on its property income or gains on property sale, provided that 90% of the Group's property rental business profits is distributed as a dividend to the shareholders. In addition, the Group has to meet certain conditions such as ensuring the property rental business represents more than 75% of the Group's business. Any potential or proposed changes to the REIT legislation are monitored and if necessary, would be discussed with HMRC. It is the Directors' intention that the Group will continue as a REIT for the foreseeable future.

iv) Fair value of derivative financial instruments

Estimates

Put options

As there are no pricing sources (such as pricing agencies), these are measured based on the likelihood of being exercised based on existing market conditions of the respective properties, to determine whether the put options are in the money or out of money.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

iv) Fair value of derivative financial instruments - (Continued)

The primary source of evidence for financial instrument valuations should be recent, comparable market transactions on an arm's length basis. However, the valuation of the Group's financial instruments is inherently subjective, as it is made on the basis of assumptions made by the pricing agencies and management which may not prove to be accurate.

4. FAIR VALUE ESTIMATION

The Group's financial assets and liabilities measured and reported at fair value are classified and disclosed in one of the following fair value hierarchy levels based on the significance of the inputs used in measuring their fair value in accordance with IFRS 13:

- Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the Group has the ability to access at the valuation date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 inputs are inputs other than quoted prices in active markets included within Level 1 that are observable for the asset or liability, either directly or indirectly. Fair value is determined through the use of models or other valuation methodologies. Level 2 inputs include the following:
  a) Quoted prices for similar assets or liabilities in active markets.
  b) Quoted prices for identical or similar assets or liabilities in markets that are not active, that is, markets in which there are few transactions for the asset or liability, the prices are not current, or price quotations vary substantially either over time or among market makers, or in which little information is released publicly.
  c) Inputs other than quoted prices that are observable for the asset or liability (e.g. interest rate and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks and default rates).
- Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs reflect the Group’s own assumptions about how the market measures the fair value.

Financial assets and liabilities are always categorised as Level 1, 2 or 3 in their entirety. In certain cases, the fair value measurement for financial assets and liabilities may use a number of different inputs that fall into different levels of the fair value hierarchy. In such cases, their level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement requires judgement and is specific to the financial asset or liability.

The policies for determining when transfers take place are as follows; transfers are made from Level 1 to Level 2 when the level of trading activity reduces significantly and transfer from Level 3 to Level 2 when information on a similar asset traded in an active market becomes available.

The Group has satisfactory title to all owned assets appearing in the consolidated statement of financial position but it should be noted that trading documents entered into by the Group may result in pledges made on such assets.

The Investment Adviser has established an internal control infrastructure over the valuation of financial instruments that requires ongoing oversight by the Pricing Committee. These management control functions are segregated from the trading and investing functions. The Investment Adviser employs resources to help ensure that the Pricing Committee is able to function at an appropriate level of quality and effectiveness. The Investment Adviser reviews the segregation of duties within its internal control infrastructure. Specifically, the Pricing Committee is responsible for establishing and monitoring compliance with valuation polices. Within the trading and investing functions, the Investment Adviser has established policies and procedures that relate to the approval of all new transaction types, transaction pricing sources and fair value hierarchy coding within the financial reporting system. Unobservable inputs are developed based on the best information available in the circumstances, other than market data obtained from sources independent of the Group and might include the Group’s own data.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

4. FAIR VALUE ESTIMATION - (CONTINUED)

The Group's assets and liabilities that are measured at fair value are classified as follows:

As at 31 December 2021	**Level 1**	**Level 2**	**Level 3**
	£	**£**	**£**
Investment properties	-	-	131,930,965
Investment in non Group entity	-	-	62
	-	**-**	**131,931,027**
As at 31 December 2020			
Investment properties	-	-	164,392,264
Investment in non Group entity	-	-	36
	-	**-**	**164,392,300**

There were no transfers between the hierarchy levels during the year ended 31 December 2021 and year ended 31 December 2020.

The most significant unobservable input in relation to the investment properties, relates to the yield. The yield is estimated to reflect current market assessment of the time value of future cash flows and the risks specific to the assets. The average estimated yield recommended by the Valuer for investment properties (completed assets) with leases was 2.87% (2020: 3.87%).

The following sensitivity analysis has been performed by Sanne Fiduciary Services Limited, as Administrator, with all other things being equal:

An increase in the yield of 0.70% (2020: 0.70%) over the useful economic life of the assets would result in a reduction in the completed assets valuation by £32,140,857 (2020: £29,753,061).

A decrease in the yield of 0.70% (2020: 0.70%) over the useful economic life of the assets would result in an increase in the completed assets valuation by £32,140,857 (2020: £29,753,061).

5. INVESTMENT PROPERTIES

The valuations prepared by CBRE, were prepared in accordance with the Royal Institution of Chartered Surveyors ("RICS") Valuation Professional Standards 2020 Global and UK edition (the "Red Book") including the international standards.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

5. INVESTMENT PROPERTIES - (CONTINUED)

	31-Dec-21	31-Dec-20
Cost	**£**	**£**
Balance at beginning of year	146,627,520	131,605,220
Acquisition of investment properties through subsidiaries	-	13,644,911
Cost adjustment	(77,467)	-
Capital expenditure	2,202,782	1,377,389
Disposal of investment properties	(10,547,735)	-
Derecognised on disposal of subsidiary	(14,142,480)	-
Balance at the end of the year	124,062,620	146,627,520
Opening fair value movement on investment properties	17,764,744	17,252,533
Fair value movement on investment properties	603,386	512,211
Net gain on disposal of investment properties	(1,474,424)	-
Disposal of investment properties	(3,152,841)	-
Derecognised on disposal of subsidiary	(5,872,520)	-
Closing fair value movement on investment properties	7,868,345	17,764,744
Fair value at the end of the year	**131,930,965**	**164,392,264**

The former Drill Hall site, Old Bedford Road, Luton

A commitment for a proposed acquisition of a Brownfield site located on Old Bedford Road, Luton and subsequent construction of 80 affordable rent flats, comprising of 32 one bedroom flats and 48 two bedroom flats (the "Luton properties"), to provide housing to the most vulnerable and disadvantaged households in Luton, was approved on 9 March 2015. The Luton properties were acquired via the Group's indirect subsidiary, Touchpoint Housing (OBR) Ltd. On 15 November 2021, the Luton properties were sold for a total of £10,050,000, resulting in a realised loss of £1,620,000.

P3 charity, Fair Chance Fund (FCF) acquisitions, Derbyshire, Gloucestershire and Nottinghamshire

A commitment for a proposed acquisition of 150 unrestricted tenure properties in the counties of Derbyshire, Gloucestershire and Nottinghamshire, from the open market ("P3 properties"), was approved on 9 March 2015. The P3 properties were acquired via a subsidiary, Touchpoint Housing (FCF-DeGL) S.à r.l. On 12 March 2021, all P3 properties were sold for a total consideration of £1,875,000, resulting in a realised gain on disposal of £145,000.

Thera, Forward Housing SW (FH), UK

A commitment for a proposed rolling acquisition of £15m of unrestricted tenure properties nationwide, from the open market (the "Thera properties"), was approved on 27 April 2015. The Thera properties were acquired via a subsidiary, Touchpoint Housing (FH) S.à r.l. Following the disposal of the subsidiary, the Thera properties were sold and the Group held no Thera properties at year end. The subsidiary was sold for a realised gain of £2,595,688 (see note 20).

Luton Borough Council, LOMP properties, UK

The acquisition of up to 200 open market properties, typically 1-3 bedroom flats and houses in Luton and surrounding areas, for a total commitment of £28.7m (the "LOMP properties"), was approved on 4 September 2015. During the year all the LOMP properties were sold for a total consideration of £1,393,309, resulting in a realised loss on disposal of £11,691.

Kelham Island, Sheffield, SKI properties, UK

A new subsidiary, Touchpoint Housing (SKI) Limited, a UK company, was acquired on 26 May 2016. The investment objective of this subsidiary is to acquire land and build developments for leasing in Kelham Island, Sheffield. The cost of the acquisition and development as at the year end amounted to £23,330,505 (2020: £23,407,972).

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

5. INVESTMENT PROPERTIES - (CONTINUED)

Concord House, Sycamore House & Windsor House, Croydon

The acquisition of investment properties ("CLR properties") via Touchpoint Housing (CLR) Ltd, a UK company, was completed on 28 December 2016. The properties comprised of three buildings being Concord House, Sycamore House and Windsor House and are made up of a total of 338 apartments located on London Road in Croydon. The cost of the acquisition as at the year end amounted to £61,106,365 (31 December 2020: £61,106,365). On 30 July 2018, the Windsor House property was transferred to a new subsidiary Touchpoint Housing (CWH) Ltd via a distribution in specie following restructuring of Touchpoint Housing (CLR) Ltd.

Bristol and Bath Regional Capital ("Bristol properties"), UK

Touchpoint Housing (CNR) Ltd ("CNR") acquired 90% of the shares in Dunmail 2017 Project Ltd ("Dunmail") in March 2018 for £90. Dunmail is the developer in a 161 unit development in the Southmead area of Bristol. CNR will hold 61 of the 161 Units of the Dunmail Project, Dunmail will retain and sell 23 and the JV partner will take the remaining units.

The Group had invested £15,721,064 (2020: 13,612,304) via an interest bearing loan and acquisition of 16 units (31 December 2020: 16 units).

London Borough of Barnet ("LBB"), London

The acquisition and refurbishment of up to 180 open market properties ("LBB properties"), within the M25, via its subsidiary Touchpoint Housing (LBB) Ltd, was approved on 12 February 2019. The LBB properties are used as temporary accommodation to satisfy LBB's homelessness obligations. The properties are 1-4 bedroom flats acquired individually or in blocks. During the year, the Group sold one property for a total consideration of £382,267, resulting in a realised gain on disposal of £12,667. The cost of the remaining property acquisitions as at the year end amounted to £23,904,687 (2020: £24,125,887, including £315,223 in respect of the property disposed in 2021).

The Fund enters into leases with three different counterparties, being local authorities, Housing Associations and Not-For-Profit organizations. The credit worthiness of those counterparties is considered in the valuation of the investments. Therefore the investments are grouped by the type of counterparty to whom a lease has already been entered into.

	31-Dec-21	**31-Dec-20**
SSO:	**£**	**£**
Local authorities	104,355,965	115,222,264
Housing Associations	27,575,000	27,425,000
Not-for-Profit organizations	-	21,745,000
	131,930,965	**164,392,264**

The judgements and estimates relating to the valuation of the above investment properties have been included in note 3.

6. FINANCIAL RISK MANAGEMENT

Financial risks are risks arising from financial instruments to which the Group is exposed to during or at the end of the reporting year. Financial risk comprises credit risk, liquidity risk and market risk (including interest rate risk, currency risk and other price risk). The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits.

Risk management is carried out by the Directors and Investment Adviser in accordance with agreed procedures. Key financial risk management reports are produced on a quarterly basis to the Board of Directors for their consideration and review thereof.

The Directors review and agree policies for managing its risk exposure. These policies are described within this note and have remained unchanged for the year under review.

6. FINANCIAL RISK MANAGEMENT - (CONTINUED)

a) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk arises from cash and cash equivalents held at banks, trade and other receivables, including rental receivables from lessees, rental guarantees and derivatives. Credit risk is managed on a Group basis.

The Group has policies in place to ensure that rental contracts are entered into only with lessees with an appropriate credit history, and the Group monitors the credit quality of receivables on an ongoing basis. Alternatively the Group may ensure that an appropriate rent deposit or guarantee is put in place. The Group's tenants are SSOs, who deliver front line services on behalf of local governments and usually receive grants or income from local government to provide social housing accommodation and thus deemed to have a low credit risk.

The Group's maximum exposure to credit risk by class of financial asset is as follows:

	31-Dec-21	31-Dec-20
	£	£
Trade receivables	391,102	1,082,953
Cash and cash equivalents	31,855,380	22,631,779
	32,246,482	23,714,732

The fair value of cash and cash equivalents and trade and other receivables at 31 December 2021 and 31 December 2020 approximates the carrying value. Further details regarding trade and other receivables can be found in note 8. There is credit risk with respect to cash and cash equivalents which are held with reputable financial institutions with a credit rating of A or better. As at 31 December 2021 and 31 December 2020, cash balances were held with The Bank of New York Mellon and Citibank.

The following table is a summary of the banking institution's credit rating per Moody's, S&P and Fitch, Credit Rating Agents as at the reporting date:

31 December 2021

	Moody's	S&P	Fitch
The Bank of New York Mellon	Aa1	AA-	AA+
Citibank	Aa3	A+	AA-

31 December 2020

	Moody's	S&P	Fitch
The Bank of New York Mellon	Aa1	AA-	AA+
Citibank	Aa3	A+	AA-

There is no material credit risk associated with the Group's financial liabilities (2020: nil).

b) Liquidity risk

Liquidity risk is the risk that the Group may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Group's liquidity position is reviewed by the Directors of the Group as part of their quarterly review.

The Group’s ability to borrow from third parties is subject to certain limitations ("Financial Restrictions") provided for in its Information Memorandum. The Financial Restrictions allow a Group subsidiary to borrow for any purpose consistent with the business of the Group including making investments, provided that only income producing assets are borrowed against and with no recourse to the Group and subject to a maximum borrowing level equivalent to 70% of the value of any investment as determined by an independent valuer in accordance with RICS guidelines. No third party loan was held at year end.

The Group manages its liquidity risk by a combination of (i) issue of new ordinary shares financed via drawdowns from the Partnership, (ii) maintaining cash levels to fund short-term operating expenses and (iii) retained profits.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

6. FINANCIAL RISK MANAGEMENT - (CONTINUED)

b) Liquidity risk - (continued)

The tables below summarises the maturity profile of the Group's financial assets and liabilities based on undiscounted contractual maturities as at 31 December 2021 and 31 December 2020:

31 December 2021	**Current to 3 months £**	**3 months to 1 year £**	**1 year to 5 years £**	**5 years + £**	**Total £**
Trade receivables	391,102	-	-	-	391,102
Cash and cash equivalents	31,855,380	-	-	-	31,855,380
	32,246,482	**-**	**-**	**-**	**32,246,482**
Financial liabilities	**Current to 3 months £**	**3 months to 1 year £**	**1 year to 5 years £**	**5 years + £**	**Total £**
Trade and other payables	(5,418,474)	-	-	-	(5,418,474)
	(5,418,474)	**-**	**-**	**-**	**(5,418,474)**
Net liquidity risk	**26,828,008**	**-**	**-**	-	**26,828,008**

31 December 2020	**Current to 3 months £**	**3 months to 1 year £**	**1 year to 5 years £**	**5 years + £**	**Total £**
Trade receivables	1,082,953	-	-	-	1,082,953
Cash and cash equivalents	22,631,779	-	-	-	22,631,779
	23,714,732	**-**	**-**	**-**	**23,714,732**
Financial liabilities					
Trade and other payables	(5,144,398)	-	-	-	(5,144,398)
	(5,144,398)	**-**	**-**	**-**	**(5,144,398)**
Net liquidity risk	**18,570,334**	**-**	**-**	**-**	**18,570,334**

The amounts disclosed in the tables are the contractual undiscounted cash flows.

c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Group's market risks arise from open positions in interest-bearing assets and liabilities, to the extent that these are exposed to general and specific market movements. The Investment Manager sets limits on the exposure to interest rate risk that may be accepted, which are monitored on a monthly basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

IFRS 7 requires disclosure of a 'sensitivity analysis' for each type of market risk to which the entity is exposed to at the reporting date, showing how profit or loss and equity would have been affected by changing the relevant risk variables that were reasonably possible at that date.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

6. FINANCIAL RISK MANAGEMENT - (CONTINUED)

c) Market risk - (continued)

Sensitivities to market risks included below are based on a change in one factor while holding all other factors constant. Changes in some of the factors may be correlated - changes in interest rate and changes in foreign currency rates or market valuations and property prices. Sensitivity analysis on the valuation of the investment properties has been detailed in note 4.

i) Foreign exchange risk

The Group is currently not exposed to significant foreign currency risk as material transactions are all in GBP.

ii) Price risk

The Group was exposed to financial instrument price risk through the put option on the Luton properties until the properties were sold during the year. The risk crystalised with their disposal.

The Group is exposed to price risk other than in respect of financial instruments, such as property price risk including property rentals risk. The Group has mitigated the price risk from rentals by only dealing with SSOs with guaranteed income from benefits paid to the tenants by government and/or local authorities.

iii) Cash flow and fair value interest rate risk

The Group holds cash balances with The Bank of New York Mellon and Citibank. These balances expose the Group to cash flow interest rate risk as the Group's income and operating cash flows will be affected by movements in the market rate of interest. There is considered to be no material fair value interest rate risk in regard to these balances.

Trade and other receivables and trade and other payables are interest free and with a term of less than one year, so it is assumed that there is no interest rate risk associated with these financial assets and liabilities.

The table below summarises the Group’s exposure to cash flow interest rate risk.

31 December 2021 **Financial assets**	**Non-interest bearing** **£**	**Fixed rate** **£**	**Floating rate** **£**	**Total** **£**
Trade receivables	391,102	-	-	391,102
Cash and cash equivalents	-	-	31,855,380	31,855,380
	391,102	**-**	**31,855,380**	**32,246,482**

Financial liabilities	**Non-interest bearing** **£**	**Fixed rate** **£**	**Floating rate** **£**	**Total** **£**
Trade and other payables	(5,418,474)	-	-	(5,418,474)
	(5,418,474)	**-**	**-**	**(5,418,474)**

6. FINANCIAL RISK MANAGEMENT - (CONTINUED)

c) Market risk - (continued)

iii) Cash flow and fair value interest rate risk - (continued)

31 December 2020	**Non-interest bearing**	**Fixed rate**	**Floating rate**	**Total**
Financial assets	**£**	**£**	**£**	**£**
Trade receivables	1,082,953	-	-	1,082,953
Cash and cash equivalents	-	-	22,631,779	22,631,779
	1,082,953	**-**	**22,631,779**	**23,714,732**
Financial liabilities				
Trade and other payables	(5,144,398)	-	-	(5,144,398)
	(5,144,398)	**-**	**-**	**(5,144,398)**

The average effective rate of interest applicable to cash and cash equivalents for the year ended 31 December 2021 was approximately 0% (2020: 0%).

iv) Sensitivity analysis

As of 31 December 2021, if interest rates had been 50 basis points higher with all other variables held constant, net asset value for the year would have been £136,302 lower (2020: £88,896 lower).

As of 31 December 2021, if interest rates had been 50 basis points lower with all other variables held constant, net asset value for the year would have been £136,302 higher (2020: £88,896 higher).

Please see note 4 for disclosures relating to the sensitivity analysis of investment properties.

d) Capital risk management

The capital of the Group is represented by the net assets attributable to the shareholders. The Group's objective when managing the capital is to safeguard the assets in order to provide returns for shareholders and to maintain a strong capital base to support the investment activities of the Group. In order to maintain or adjust the capital structure, the Directors may issue new shares to the sole shareholder, obtain external financing through the subsidiaries or withhold from distributing funds to the shareholders. There are no externally imposed capital requirements other than property income distribution (PID).

7. CASH AND CASH EQUIVALENTS	**31-Dec-21**	**31-Dec-20**
	£	**£**
Cash at bank	31,855,380	22,631,779

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

8. TRADE AND OTHER RECEIVABLES	**31-Dec-21**	**31-Dec-20**
	£	**£**
Trade receivables	391,102	988,787
VAT receivable	13,966	18,696
Other assets	-	94,166
	405,068	**1,101,649**

The expected credit loss on debtors approximates nil due to the Group's nature of tenants, backed by local governments.

9. TRADE AND OTHER PAYABLES	**31-Dec-21**	**31-Dec-20**
	£	**£**
Trade payables and accruals	5,418,474	5,144,398
Deferred income	171,712	27,992
	5,590,186	**5,172,390**

Trade and other payables includes an amount of £3,409,376 (31 December 2020: £3,486,843) relating to unpaid construction costs in the SKI project, £nil (31 December 2020: £492,994) for the LBB project, £1,858,628 (31 December 2020: £971,560) for the Dunmail project and other operating payables and accruals.

10. DERIVATIVE FINANCIAL INSTRUMENTS

The Group through its former subsidiary Touchpoint Housing (OBR) Ltd had entered into a put option with the lessee, Luton Borough Council on the OBR property in Luton. The options allowed the Group as lessor to require the lessee to acquire the one and two bedroom units in the property at an agreed price, in years 7, 8 and 9 ("exercise points") after the practical completion of the OBR property. The agreed prices were set as 87.5% of the estimated open market value ("OMV") at 13 April 2015 (agreement date), being £87,500 for every one bedroom unit and £126,875 for every two bedroom unit. However, the exercise of the option by the Group was restricted to not less than 25 units and not more than 50 units at each exercise point. During the year on 15 November 2021, the Group sold the OBR property to Luton Borough Council and the option lapsed on the disposal date.

The Group also through its subsidiary Touchpoint Housing (CLR) Ltd, entered into put options with the lessee, the Mayor and Burgesses of Luton Borough of Croydon (the "lessee"), on the CLR properties in Croydon, granting the lessee the option to purchase the CLR properties at the expiry of their respective 40 year leases. The put options allow the lessee to purchase Sycamore House and Concorde House for £1 at the expiry of their respective leases and Windsor House at 95% of the then current market value of the property at the expiry of the 21 year lease term. As at YE, these options were deemed out-of-money and therefor hold no value.

The Group also through its subsidiary Touchpoint Housing (LBB) Ltd, entered into put options with the lessee, the Mayor and Burgesses of the London Borough of Barnet (the "lessee"), on the LBB properties in Barnet, granting the lessee the option to purchase the properties at the expiry of their respective 40 year leases. The put options allow the lessee to purchase the properties for £1 at the expiry of their respective leases. As at the year end, these options were deemed out-of-money and therefor hold no value.

The Group also through its subsidiary Touchpoint Housing (CNR) Ltd, entered into put options with the lessee, the Great Western Regional Capital Ltd (the "lessee"), on the Bristol properties, granting the lessee the option to purchase the properties at the expiry of their respective 40 year leases. The put options allow the lessee to purchase the properties for £1 at the expiry of their respective leases. As at the year end, these options were deemed out-of-money and therefor hold no value.

11. EXPENSES

Insurance fees

Insurance fees comprise of the property insurance for the Group's investment properties and tax liability insurance which was fully expensed in the year in respect of a contingent liability relating to a potential withholding tax liability (see note 14). The insurance fees for the year amounted to £3,125,500 (2020: £103,815)

Property operating expenses

Property operating expenses are costs incurred which can be directly attributed to the Group's real estate investments. The property operating expenses for the year amount to £632,022 (2020: £25,416), of which £nil (2020: £nil) was payable as at the year end, 31 December 2021.

Administration agreement

Sanne Fiduciary Services Limited ("SFSL") provides management and other services to the Group pursuant to the Administration Agreement entered into on 24 November 2014. The administration fees for the year amount to £367,441 (2020: £426,954), of which £4,795 (2020: £nil) was payable as at the year end, 31 December 2021.

Audit fees

Audit fees are fees paid / payable to Deloitte LLP, the appointed auditor, for the provision of audit services to the Group. The audit fees for the year amount to £166,100 (2020: £168,000). The balance outstanding as at the year end 31 December 2021 was £126,100 (2020: £146,100).

Legal and other professional fees

Legal and other professional expenses are costs incurred for fees paid to lawyers and agents for legal and professional advisory services. The legal and professional fees for the year amount to £2,166,637 (2020: £1,298,495), of which £nil (2020: £35,245) was payable as at the year end, 31 December 2021.

Director fees

Director fees are fees paid for provision of director services to the Group. The Director fees for the year amount to £24,198 (2020: £35,619), of which £nil (2020: £nil) was payable as at the year end 31 December 2021. The Director fees are based on a standard rate amounting to £2,678 per quarter for the Company and £987 per quarter for SoPro Holdings S.à r.l. and £2,408 per quarter for Touchpoint Housing (FCF-DeGl) S.à r.l. and Touchpoint Housing (FH) S.à r.l. for Sanne directors.

12. TAXATION

The tax charge for the year can be reconciled to the profit per the consolidated statement of comprehensive income as follows:

	31-Dec-21	31-Dec-20
UK current tax	**£**	**£**
Profit on ordinary activities before taxation	637,171	4,657,228
Tax charge at the current UK corporation tax rate of 19% (31 December 2021: 19%)	121,062	884,873
Tax effect of exempted UK property income under REIT regime	(121,062)	(884,873)
Tax result for the year	-	-

The Company had a stand-alone loss, after dividends expense, of £4,301,375 (2020: profit of £2,998,705), and is not taxable under Jersey tax laws.

The Group has elected to be treated as a Real Estate Investment Trust (REIT). The REIT regime exempts the profits of the Group’s UK property rental business from corporation tax. Gains on UK properties are also exempt from tax provided the properties are not held for trading or sold within three years of completion of development.

12. TAXATION - (CONTINUED)

As a REIT, the Group is required to pay property income distributions equal to at least 90% of the Group's exempted net income. To remain a REIT there are a number of conditions to be met in respect of the principal company of the Group, SoPro Holdings Real Estate Investment Trust Plc. Please refer to note 3 on assessment undertaken to ensure the Group meets the REIT requirements.

Luxembourg tax

The Luxembourg subsidiaries are subject to the general tax regulations applicable to Luxembourg commercial companies. During the year, all Luxembourg subsidiaries were derecognised for consolidation purposes. The tax charge for 2021 therefore represents tax incurred in these subsidiaries up until derecognition and now no longer accrues. The tax expense charged for the year ended 31 December 2021 was £9,005 (2020: £22,075).

13. SHARE CAPITAL AND SHARE PREMIUM

(a) Share capital

	31-Dec-21	31-Dec-20
	£	£
Opening share capital	1,502	1,294
Share capital issued in current year	-	208
Share capital repurchased in current year	(165)	-
Closing share capital	**1,337**	**1,502**

(b) Share premium

	31-Dec-21	31-Dec-20
	£	£
Opening share premium	165,435,921	140,436,129
Share premium issued in current year	-	24,999,792
Share premium repurchased in current year	(19,999,835)	-
Closing share premium	**145,436,086**	**165,435,921**

The authorised share capital of the Company consists of 300,000 (2020: 300,000) ordinary shares of £0.01 each.

During the year, no ordinary shares were issued to the sole shareholder (2020: 20,829). 16,520.3651 ordinary shares of the Company were repurchased in the year amounting to £165 share capital and £19,999,835 share premium.

As at 31 December 2021, a total of 133,740.54 ordinary shares had been issued and fully paid (2020: 150,260.91 ordinary shares) amounting to £1,337 share capital and £145,436,086 share premium (2020: £1,503 share capital and £165,435,920 share premium). The Company has one class of ordinary shares which carry no right to fixed income.

On 24 June 2021, the Company paid a dividend of £5,773,504 (2020: £4,945,555) to its sole shareholder. The dividend was the property income distribution ("PID") for the year ended 31 December 2020. Subsequently in September 2021, the Company paid a return of capital distribution amounting to £20 million to its sole shareholder following the repurchase transaction noted above.

14. CONTINGENCIES AND COMMITMENTS

The Group has a contingent liability relating to a potential withholding tax liability ('liability') arising from dividends paid by subsidiaries incorporated in Luxembourg. As the related tax exposure is not confirmed and uncertainty exists, the liability is deemed to be not probable at this stage. However, the Group decided to insure against the potential risk to mitigate against the contingent liability and paid a premium amounting to £2,973,936 during the year.

15. LEASING ARRANGEMENTS

The property rental income earned during the year by the Group as lessor was £5,369,739 (2020: £6,193,331). With the exception of the CLR properties where the lessees have the right to exercise the put option as disclosed in note 3 and note 10, lessees do not have an option to purchase the property at the expiry of the lease period.

The future aggregate minimum rentals receivable under non-cancellable leases are as follows:

	31-Dec-21	31-Dec-20
	£	£
No later than 1 year	3,960,575	5,713,296
Later than 1 year but not later than 5 years	15,339,154	22,602,878
Later than 5 years	85,520,327	108,575,694
	104,820,056	**136,891,868**

16. RELATED PARTY DISCLOSURES

Jonathan Wilkinson, a Director of the Company, also holds a financial interest in Sanne Group Plc, a company listed on the London Stock Exchange, which is the parent company to Sanne Fiduciary Services Ltd ("SFSL").

Kelly Moore, a Director of the Company, also holds a financial interest in Sanne Group Plc, a company listed on the London Stock Exchange, which is the parent company to SFSL.

Richard Lang, a Director of the Company, is also a partner of Cheyne Capital Management (UK) LLP, the Investment Adviser to the Group and does not receive any remuneration from the Company.

Andrew Sergeant, a Director of the Company, is also an employee of Cheyne Capital Management (UK) LLP, the Investment Adviser to the Group and does not receive any remuneration from the Company.

Joseph Ruiz, a Director of the Company, is also an employee of Cheyne Capital Management (UK) LLP, the Investment Adviser to the Group and does not receive any remuneration from the Company.

Sandra Wittmann, a Director of the Company, is also a partner of Cheyne Capital Management (UK) LLP, the Investment Adviser to the Group and does not receive any remuneration from the Company.

Significant balances outstanding of the related parties are shown below:

As disclosed in note 13, during the year the Partnership had not provided additional funding to the Company (2020: £25,000,000).

Information on subsidiary undertakings is included on note 2.

During the year, the Group disposed of assets to a related entity, Cheyne Impact Real Estate Trustee Limited as Trustee of the Cheyne Impact Real Estate Trust ("CIRET"). CIRET is a successor fund to the Group sharing the same Investment Adviser. This created potential conflicts of interest during the sales process which were addressed by the Investment Adviser as follows to ensure the sale process was at arms length;

i) CIRET was involved in the market sale process as an active bidder with same limitations as other bidders and was required to bid ahead of other bidders. This was to provide assurance to other bidders that the intention was not to price the assets simply for an internal transfer;

ii) CIRET were also required to use a different law firm from the Group's lawyers, Squire Pattons Boggs, for legal advice to ensure independence;

iii) The Investment Adviser separated the internal teams dealing for CIRET and for the Group's interest, creating an ethical wall to enhance the independence of the sales process. This was to ensure there was no actual or perceived preference to CIRET in the bidding process.

On the basis of the above mitigating steps undertaken, the Board determined that CIRET was deemed independent to bid and participate in the Group's sales process.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

17. NON CONTROLLING INTEREST

	31-Dec-21	31-Dec-20
	£	£
Balance at the beginning of the year	**3,339,831**	**377,856**
Non controlling interest arising from contributions	843,964	3,192,550
Share of comprehensive income/(loss) for the year	24,665	(230,575)
Balance at the year end	**4,208,460**	**3,339,831**

The non controlling interest in Dunmail represented 10% (2020: 10%) of Dunmail's ordinary shares in issue as at the year end.

18. EARNINGS PER SHARE

From continued and discontinued operations

Earnings	31-Dec-21	31-Dec-20
	£	£
Earnings for the purposes of basic earnings per share being net profit attributable to equity holders of the Group	603,501	4,982,284
Number of shares in issue	133,740.54	150,260.91
Basic and diluted earnings per share	**4.51**	**33.16**

19. ULTIMATE CONTROLLING PARTY

No single party has been identified as the ultimate controlling party and thus no details are disclosed.

20. DISPOSAL OF SUBSIDIARIES

On 18 March 2021, the Group disposed of it's shares in Touchpoint Housing (FH) S.à.r.l. for a cash consideration of £23,637,278 (£22,610,686 from buyer and £1,026,592 cash distribution) as summarised below:

	£
Total cash consideration	23,637,278
Carrying amount of net assets sold	(21,041,590)
Realised gain on disposal of subsidiary	**2,595,688**

As at the date of disposal, the carrying amounts of assets and liabilities were:

	£
Investment property	20,015,000
Cash and cash equivalents	1,026,592
Carrying amount of assets sold	21,041,592
Other liabilities	(2)
Carrying amount of net assets sold	**21,041,590**

21. SEGMENT REPORTING

The Group operates as a single business segment, no segment reporting disclosures are included.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS- (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

22. MARKET CONSIDERATIONS

Impact of COVID-19

The coronavirus (COVID-19) outbreak has caused extensive disruptions to businesses and economic activities in Asia and European countries and elsewhere. The uncertainties over the emergence and spread of COVID-19 have caused market volatility on a global scale. The quantum of the impact is difficult to determine, however the Directors are monitoring the situation and considering the effect it may have on the valuation of the Group's investment properties in the future.

In the opinion of the Directors, the Coronavirus outbreak is not likely to have a material adverse effect on the financial position and results of the Group, despite the challenges on developments, purchase programmes and portfolio sales highlighted in the Investment Adviser's report. As such no adjustment for any potential impact has been made in these financial statements.

23. SUBSEQUENT EVENTS

Extension of the Partnership's life

On 18 January 2022, the Partnership's investors were requested to consent to a further extension of the life of the Fund to 30 September 2023. The required majority investor consents were subsequently received and the Partnership's General Partners approved the implementation of the Partnership's changes on 9 February 2022.

Interim dividend and Return of capital distribution

Subsequent to the year end on 4 February 2022, the Company paid an interim dividend of £3 million and a return of capital distribution amounting to £7 million to its sole shareholder. A total of 5,895.6057 ordinary shares of the Company were repurchased amounting to £59 share capital and £6,999,941 share premium.

24. UNAUDITED RECONCILIATION OF NAV UNDER IFRS TO NAV IN ACCORDANCE WITH THE INFORMATION MEMORANDUM

	31-Dec-21	**31-Dec-20**
	£	**£**
Net assets under IFRS	154,584,980	179,754,983
Consolidation adjustments:		
Adjustment for NCI interest on consolidation	4,208,460	3,339,831
Net assets in accordance with the Information Memorandum	**158,793,440**	**183,094,814**
NAV per share in accordance with the Information Memorandum	**1,187.325**	**1,218.513**

The NAV per the Information Memorandum had not consolidated the results of the Dunmail subsidiary and as a result had not recognised the NAV allocation to the non controlling interest, now adjusted.