SANDSTONE RESIDENTIAL REIT PLC

ANNUAL REPORT & ACCOUNTS FOR THE PERIOD ENDED 30 SEPTEMBER 2022

SANDSTONE RESIDENTIAL REIT PLC

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FOR THE PERIOD ENDED 30 SEPTEMBER 2022

SANDSTONE RESIDENTIAL REIT PLC

COMPANY INFORMATION
FOR THE PERIOD ENDED 30 SEPTEMBER 2022

DIRECTORS	Peter Grant Alan Robertson Lindsay Campbell
REGISTERED OFFICE	14 Coates Crescent, Edinburgh, Scotland EH3 7AF
REGISTERED NUMBER	SC701230 Registered in Scotland
COMPANY SECRETARY & ADMINISTRATOR	JTC (UK) Limited The Scalpel 18th Floor, 52 Lime Street, London, England, EC3M 7AF
INVESTMENT MANAGER	Sandstone Capital Limited 14 Coates Crescent, Edinburgh, Scotland, EH3 7AF
INDEPENDENT AUDITORS	RSM UK Audit LLP 3rd Floor, Centenary House, 69 Wellington Street Glasgow, G2 6HG
PROPERTY VALUER	Allied Surveyors Scotland plc Herbert House, 24 Herbert Street, Glasgow, G20 6NB Independent Quantity Surveyors The Old Red King, 158-162 Bury New Road, Whitefield Greater Manchester, M45 6AD
LEGAL ADVISERS	Dickson Minto LLP Level 13 Broadgate Tower, Primrose Street, London, EC2A 2EW
LISTING SPONSOR	Bedell Channel Islands Limited Bedell Cristin, 26 New Street, St Helier, Jersey, JE4 8PP
TAX ADVISOR	Ernst & Young LLP 1 More London Place, London, SE1 2AF
REGISTRARS	Computershare Investor Services PLC The Pavilions, Bridgwater Road, Bristol, BS13 8AE
WEBSITE	www.sandstoneuk.com

SANDSTONE RESIDENTIAL REIT PLC

CHAIRMAN'S STATEMENT
FOR THE PERIOD ENDED 30 SEPTEMBER 2022

Dear Shareholder

I am pleased to introduce the first report of the Sandstone Residential REIT plc following its launch in 2021. In this time, the Company has attracted over £3 million of investment and deployed the capital to grow the portfolio to 16 properties, and achieve a Net Asset Value of £3.258m.

Strategy

The REIT focuses on the acquisition of traditional properties as opposed to large purpose-built blocks and allows for investors to invest into the UK residential market in a very hands off way. Leveraging off the long-standing track record of our Investment and Property Manager, the Sandstone Group, the REIT targets properties within the top regional university cities with a target rental group being students, backed by their parents acting as guarantors.

Growth remains the key focus for the Company and we continue to seek the correct balance of equity and debt funding, that we have confidence can be applied quickly with the use of our Investment Manager's (Sandstone Capital) acquisition strength.

The REIT has chosen to launch on The International Stock Exchange ("TISE") with a stated intention to move to the London Stock Exchange ("LSE") as the REIT scales up to a level that would appeal on the LSE, which is anticipated to be in the region of £100 million of gross assets, funded through £60 million of equity and £40 million of debt.

Portfolio and Corporate Performance

Details pertaining to the performance of the REIT are set out in the Strategic Report section.

Board Composition

All of the Directors of the REIT are experienced within the property market generally, and the residential sector specifically and further details are provided in the Directors' Biographies section of this Report.

Outlook

At the time of writing, the UK is experiencing high levels of political and economic uncertainty. However, there remains a well-documented shortage of housing supply and high levels of demand. The growth of house prices is starting to slow from recent double-digit levels however the REIT believes that, by focussing on the traditional properties within UK cities with a strong university presence, its portfolio will perform relatively well within the overall UK residential market.

Discussions are ongoing with regard to securing further investment and debt funding, whilst mindful of the current volatility around interest rates and ensuring that the gearing policy of the REIT is appropriate to market conditions.

The REIT is focused on growth underpinned by its clear investment strategy. The Sandstone Group are committed to delivering this as demonstrated by the undertaking to underwrite the set-up and many of the administrative costs relating to the REIT during its early period of trading. However, the Sandstone Group reserves the right to recharge some of these costs once the REIT has scaled up and goes for an initial public offering on the London Stock Exchange.

DocuSigned by:

Peter Grant

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Chairman

Peter Grant

3/2/2023

SANDSTONE RESIDENTIAL REIT PLC

STRATEGIC REPORT
FOR THE PERIOD ENDED 30 SEPTEMBER 2022

The Directors present the strategic report of the Sandstone Residential REIT PLC for the period ended 30 September 2022.

Market Review
During the period the rental market has delivered strong performance driven by the shortage of accommodation. As set out below, under the Asset Management & Rent section, this has seen high levels of occupancy across the period together with significant rental increases. At the time of writing, annual house price inflation was slowing but the Halifax Bank reported annual house price inflation of 8.3% in its October 2022 House Price Index Report.

Investment Strategy & Purchases
As set out in the Chairman's Statement, the REIT focuses on acquiring traditional properties situated in prime locations within UK cities boasting a strong university presence.

At the period end, the Group held sixteen properties across Edinburgh, Glasgow, Dundee, Aberdeen and Manchester – eight of which were acquired on 29th September 2022.

Valuation
At 30 September 2022, the properties were valued by third party, independent surveyors at a total of £3,300,000.

The total cost of properties in the portfolio was £3,359,810. The valuation reflects the period of time since acquisition net of the typical acquisition costs which can occur in terms of Land & Buildings Transaction Tax/Stamp Duty Land Tax, legal fees and professional fees.

To maximise returns, the REIT will consider properties which require renovation prior to letting. Excluding acquisition costs, the total of purchase price and renovations works amounts to £3,268,368 which represents a 1.0% increase in value. This increase reflects the fact that the eight properties acquired just before period end all held their value at the acquisition price, therefore the increase in value on the first eight properties was 1.6%.

Debt
At the period end, the REIT had debt of £600,067, before unamortised loan arrangement fees, secured against three of its properties and so the Group had gearing of 18.2% against the value of the property portfolio.

The REIT's gearing policy sets out that gearing, calculated as a percentage of the Gross Asset Value, will not exceed 50% at the time of drawdown. The Board's intention is that borrowings will represent between 30% and 40% of the Gross Asset Value.

With regard to the existing loan arrangements, the interest rates are fixed at a range of 4.24% - 4.54% through to 2026, and loan covenants continue to be comfortably met.

Asset Management & Rent
The demand for rental properties is well documented and three of the key asset management targets are around occupancy, rental increases and rent collection.

At the period end, all properties were occupied and where tenants did vacate during the period the average turnaround time for new tenancies to take occupancy was sixteen days.

These new tenancies also provided an opportunity to increase the rent charged. Across those properties where new tenancies were entered into during the period, rents increased by 13.5%, on average. Two such properties achieved rental increases exceeding 20%.

With regard to rent collection, the REIT is protected through the tenant deposit and guarantee arrangements that are in place. At the period end, there was £1,928 of arrears which have now been fully recovered and there were no write offs in the period.

Dividends
The Board is cognisant of the need to pay a sustainable, attractive level of dividend to shareholders on a quarterly basis. Following the period end, the subsidiary entity of the REIT Group, Grant and McLaren Limited, is now in a position to make a distribution to the parent company which will then allow for the REIT to pay dividends to its shareholders once it has lodged financial statements at Companies House to justify the dividends in accordance with the Companies Act 2006.

The expectation is that the first dividend will be paid to investors during the first quarter of 2023.

Principal Risks and Uncertainties
The principal risks and uncertainties are set out in the outlook summaries in both the Chairman's Statement on page 2 and below, and the note on financial instruments below, together with further disclosures in Note 17.

Forward-Looking Statements
This Report contains certain forward-looking statements that have been made by the Directors in good faith based on the information available at the time of the approval of the Report and financial statements. By their nature, such forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that will or may occur in the future. Actual results may differ from those expressed in such statements.

Outlook
The housing market has recorded strong gains over the period although they are predicted to slow. The REIT will continue to focus on areas of high student rental demand, generated in prime locations of university cities as part of its investment strategy which we believe will prove resilient within this economic climate.

The full impact of government legislation to restrict rental increases and tenant evictions has still to be seen. In Scotland, The Cost of Living (Tenant Protection) Scotland Bill places restrictions on rent increases upon incumbent tenants and currently runs to 31 March 2023, although this can be extended to 31 March 2024. This may impact our ability to increase rents where tenants remain in occupation however, given the seasonality of our model with a strong focus on student tenancies, we would expect tenant turnover to occur that would enable the rent on re-lettings to be set at the market rates at that time. This is against a backdrop of the low levels of accommodation on offer, which this legislation is likely to exacerbate.

Statement on S172 of the Companies Act 2006
Section 172(1) of the Companies Act 2006 requires Directors of a company to act in the way they consider in good faith, would be most likely to promote the success of the company for the benefit of its members as whole, taking into account: -

a. The likely long term consequences of decisions;
b. The need to foster the company's relationships with all stakeholders; and
c. The impact of the company's operations on the community and the environment.

The Company is a REIT and has no Executive Directors or employees and is governed by a Non-Executive Board of Directors. Its main stakeholders are shareholders, tenants, the Investment Manager, service providers, debt providers, the environment and the community.

The Board has delegated day-to-day management of the assets to the Investment Manager and either directly or through the Investment Manager, the Company engages key suppliers to provide services in relation to property management, health and safety, valuation, audit, share registration and legal and tax requirements, amongst others. All key decisions taken in relation to the Company's strategy and operations require Board approval of Investment Manager recommendations, and the Directors regularly hold board meetings to discuss and make decisions pertaining to the REIT.

The Board's primary focus is to promote the long term success of the Company for the benefit of its stakeholders as a whole whilst considering the long term consequences of its decisions on its stakeholders to ensure the sustainability of the Company.

Strategic report
The Company has chosen in accordance with Companies Act 2006, s. 414C (11) to set out in the Company's strategic report information required by the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, Sch. 7 to be contained in the directors' report. It has done so in respect of risks in relation to financial instruments.

Signed on behalf of the board by

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Peter Grant
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Chairman
Peter Grant
3/2/2023

SANDSTONE RESIDENTIAL REIT PLC

REPORT OF THE DIRECTORS
FOR THE PERIOD ENDED 30 SEPTEMBER 2022

The board of directors (the "**Directors**") are pleased to present their report together with the consolidated financial statements for the period ended 30 September 2022.

Incorporation of the Company

Sandstone Residential REIT PLC (the "Company" or the "REIT") was incorporated in Scotland under the Companies Act 2006 on 10 June 2021 and is a public company limited by shares with company number SC701230. On 24 September 2021 the Company's shares were admitted to the official list of The International Stock Exchange ("TISE").

Sandstone Residential REIT plc is resident in the United Kingdom and is qualified as a UK real estate investment trust.

Principal activity

The principal activity of the Company is that of property investment in the United Kingdom.

Articles of Association

These are available by application to the Company Secretary. Any amendment to the Company's Articles of Association may only be made by passing a special resolution of the shareholders of the Company.

Directors and Directors' Interest

The Directors who served during the period, and up to the date of signing are:

Peter Grant	(appointed 10 June 2021)
Alan Robertson	(appointed 10 June 2021)
Lindsay Campbell	(appointed 2 December 2021)
William Adams	(appointed 10 June 2021; resigned 2 December 2021)

The Directors' biographies are set out on pages 8 to 9.

As at 30 September 2022, the Directors had beneficial interest in the following number of shares in the Company:

Peter Grant	1,000,001 Ordinary Shares
	50,000 Redeemable Preference Shares

The Related Party notes is set out on page 28.

Employees

The Group has no executive directors or employees and therefore no employee share scheme or policies.

Results

The results for the period for the Group are set out in the Consolidated Statement of Comprehensive Income on page 15.

Going Concern

The Directors consider the Company and the Group to be a going concern. The financial statements are prepared on this basis, as explained on page 19 of the financial statements.

Taxation

The Company operates as a Real Estate Investment Trust and therefore profits and gains from its qualifying property rental business are expected to be exempt from corporation tax since it joined HMRC's REIT tax regime on 7th October 2021.

Political donations

No political donations were made during the period.

Branches outside the UK

The Company does not have any branches outside the UK.

Financial Instruments
The Group's exposure to market, credit, liquidity and cash flow risks are further described in note 17 of the financial statements together with the group's financial risk management objectives and policies.

Independent Auditor
RSM UK Audit LLP (the "Auditors") were appointed as Auditors on 30 November 2022. The Auditors will be proposed for reappointment at the forthcoming Annual General Meeting.

Disclosure of information to the Auditors
The Directors who were members of the board at the time of approving the Directors' report have confirmed that:

- so far as each director is aware, there is no relevant audit information of which the Company's auditor is not aware; and
- each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Annual General Meeting
The forth coming Annual General Meeting ("AGM") is scheduled to take place in March 2023. Full details are contained in the Notice convening the AGM, which will be sent to the shareholders shortly after the publication of this Report.

Signed on behalf of the board by

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Peter Grant
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Chairman
Peter Grant
3/2/2023

SANDSTONE RESIDENTIAL REIT PLC

DIRECTORS' RESPONSIBILITIES
FOR THE PERIOD ENDED 30 SEPTEMBER 2022

The Directors are responsible for preparing the Company's Annual Report and Financial Statements (the "**Accounts**" or "**Financial Statements**") in accordance with applicable law and regulations.

Company law requires the Directors to prepare the group and Company's Accounts for each financial period. Under the law and, as permitted by The International Stock Exchange rules, the Directors have elected to prepare the consolidated Financial Statements in accordance with International Accounting Standards, and the Company Financial Statements under FRS 102, in conformity with the requirements of the Companies Act 2006 and applicable law.

Under Company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and Company and their profit or loss for that period. In preparing the Accounts, the Directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are reasonable, relevant and reliable;
- State whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006
- Assess the Company's ability to continue as a going concern, disclosing, as applicable matters related to going concern; and
- Use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the group and Company and enable them to ensure that its Financial Statements comply with the Companies Act 2006. They are responsible for such internal control as they determine necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and Directors Report that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdiction.

Signed on behalf of the board by

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Peter Grant
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Chairman
Peter Grant
3/2/2023

SANDSTONE RESIDENTIAL REIT PLC

DIRECTORS' BIOGRAPHIES
FOR THE PERIOD ENDED 30 SEPTEMBER 2022

The Directors have a broad range of backgrounds and relevant skills and experience, which enables them to work well together in leading the Group.

Board of directors

Peter Grant (FCIM, ARLA)
Appointed: 10 June 2021
Role: Chair, Non-Executive Director

Peter (MBA) is a graduate of Robert Gordon and Edinburgh University and is a Fellow of the Institute of Marketing. He co-founded Grant Property in 1997 which is now part of the Sandstone Group. It has a client base spread across 40 countries with approximately £0.5 billion assets under management. He was awarded "Entrepreneur of the Year" and "Professional Services Company of the Year". Prior to launching Sandstone Group, Peter worked for a variety of corporations including Thomson Corp, John Menzies and Mirror Group.

Other current directorships/memberships

Sandstone Capital LTD	2021 – Present	Director
Sandstone Investment Management Limited	2021 – Present	CEO
Grant Residential Investment Ltd	2021 – Present	Director
Global Trees	2007 – Present	Director
Sandstone Corporate Services Ltd	2020 – Present	Director
Sandstone UK Property Management Solutions Ltd	2019 – Present	Director
Grant & McLaren Ltd	2020 – Present	Director
Sandstone UK Property Investment Ltd	2020 – Present	Director
Sandstone Asset Management Ltd	2019 – Present	Director
Sandstone UK Management Ltd	2019 – Present	Director
Central Letting Limited	2019 – Present	Director
Grant Asset Management Limited	2021 – Present	Director
Grant Caledonia Limited	2019 – Present	Director
Grant Property Solutions Ltd	2020 – Present	Director
Grant Corporate Finance Limited	2019 – Present	Director
Grant Management and Interiors Ltd	2021 – Present	Director
Grant Property Management Solutions Limited	2021 – Present	CEO
GP Investment & Management Ltd	2019 – Present	Director
Applecross Investments Ltd	2020 – Present	Director

Alan Robertson
Appointed: 10 June 2021
Role: Independent Non-Executive Director

Alan is a Fellow of the Royal Institution of Chartered Surveyors (FRICS) with nearly 40 years' experience of working in the commercial and residential real estate sector. He held posts as managing director of JLL in both Scotland and Turkey before taking up the post of CEO of JLL in the Middle East and North Africa region, from which he retired on 31 March 2018. He is a director of Struan Property Limited and West Town Edinburgh Limited. From 2015 – 2021 he was a director of Drum Income Plus REIT plc. His voluntary activities include serving as a member of the Court of Heriot-Watt University and as the Master of the Royal Company of Merchants of the City of Edinburgh.

Other current directorships/memberships

MCET Limited	2022 – Present	Director/ Chartered Surveyor
Merchants' Hall Limited	2022 – Present	Director/ Chartered Surveyor
Grant and McLaren Ltd	2021 – Present	Director
West Town Edinburgh Ltd	2021 – Present	Director/ Chartered Surveyor
Struan Property Limited	2003 – Present	Director/ Chartered Surveyor

Lindsay Campbell
Appointed: 2 December 2021
Role: Non-Executive Director

Lindsay (CA) is a qualified accountant, she has worked for Procter and Gamble, William Grant and Sons and is currently Group Finance Director at The Edrington Group. Lindsay has experience within the property sector through the establishment of two private property funds in her former role as Managing Director of Grant Asset Management.

Other current directorships/memberships

GT Distillery Limited	2020 – Present	Director/ Chartered Accountant
The Glenrothes Distillery Company Limited	2020 – Present	Director/ Chartered Accountant
Edrington (Trustees) Limited	2020 – Present	Director/ Chartered Accountant
BB&R Spirits Limited	2020 – Present	Director/ Chartered Accountant
Highland Distillers Limited	2019 – Present	Director/ Chartered Accountant
Highland Distillers Group Limited	2019 – Present	Director/ Chartered Accountant

SANDSTONE RESIDENTIAL REIT PLC

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF SANDSTONE RESIDENTIAL REIT PLC

Opinion

We have audited the financial statements of Sandstone Residential REIT (the 'parent company') and its subsidiary (the 'group') for the period ended 30 September 2022 which comprise consolidated statement of comprehensive income, consolidated and company statement of financial position, consolidated and company statement of changes in equity, consolidated statement of cash flows and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and UK-adopted International Accounting Standards. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30 September 2022 and of the group's loss for the period then ended;
- the group financial statements have been properly prepared in accordance with UK-adopted International Accounting Standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 1 to the group financial statements, the group in addition to complying with its legal obligation to apply UK-adopted International Accounting Standards, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the group financial statements give a true and fair view of the consolidated financial position of the group as at 30 September 2022 and of its consolidated financial performance and its consolidated cash flows for the period then ended in accordance with IFRSs as issued by the IASB.

Basis for opinion

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

Summary of our audit approach

Key audit matters	**Group** • Valuation of investment property **Parent** • None
Materiality	**Group** • Overall materiality: £176k • Performance materiality: £114k **Parent Company** • Overall materiality: £103k • Performance materiality: £67.1k
Scope	Our audit procedures covered 100% of rental income, 100% of total assets and 100% of profit before tax.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the group and parent company financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the group and parent company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

CONTINUED REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF SANDSTONE RESIDENTIAL REIT PLC

Valuation of investment property	
Key audit matter description	Investment property is held in the financial statements at fair value. There are independent valuations which are carried out by Allied Surveyor Scotland Ltd and IQS, who are valuations experts. The value of the properties as at 30 September 2022 was £3,300,000. The valuations depend on location data provided by management and the independent valuation expert then assesses the comparability of similar recent market transactions. There is a risk any inaccuracies in the assumptions and adjustments would have a direct impact on the property value. Given the significance of the valuation in the context of the group balance sheet, and the subjective nature of investment property valuations, this has been identified as a significant risk and key audit matter. See note 6 for further information.
How the matter was addressed in the audit	• We evaluated the competency, capabilities and objectivity of those preparing the external valuation • We discussed the valuations with the external valuer and challenged them on their approach and key assumptions. • We utilised the help of an independent auditors expert in property valuation to assist the audit team in assessing the appropriateness of the valuations and methodology followed by the external valuation expert. • We benchmarked the resulting valuations to open market data to assess the valuations of comparable properties against the portfolio. • We used a disclosure checklist to audit the disclosures relating to the property valuations, including the disclosure of the critical estimations and judgements made by management.

Our application of materiality

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures. When evaluating whether the effects of misstatements, both individually and on the financial statements as a whole, could reasonably influence the economic decisions of the users we take into account the qualitative nature and the size of the misstatements. Based on our professional judgement, we determined materiality as follows:

	Group	Parent company
Overall materiality	£176k	£103k
Basis for determining overall materiality	1% of total assets	1% of total assets
Rationale for benchmark applied	The benchmark is considered to represent the primary focus of the users of the accounts, as this captures the valuation of properties held. No separate materiality has been applied to the income statement due to the low level of trading in the period	The benchmark is considered to represent the primary focus of the users of the accounts, as this captures the valuation of properties held. No separate materiality has been applied to the income statement due to the low level of trading in the period.
Performance materiality	£114k	£67.1k
Basis for determining performance materiality	65% of overall materiality	65% of overall materiality
Reporting of misstatements to the Board of Directors	Misstatements in excess of £8.8k and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.	Misstatements in excess of £5.2k and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.

CONTINUED REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF SANDSTONE RESIDENTIAL REIT PLC

An overview of the scope of our audit

The group consists of 2 components, both of which are based in the UK.

Full scope audit procedures have been completed on the consolidated and parent company financial statements, The scope of our audit covered 100% of revenue, 100% of total assets and 100% of profit before tax included in the consolidated financial statements and no components auditors were used.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- Reviewing management's Going concern assessment covering the 12-month period from the date of approval of the financial statements.
- Checking the mathematical accuracy of the underlying financial model
- Reviewing covenant compliance
- Reviewing the appropriateness of going concern disclosures in the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's or the parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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, except to the extent otherwise explicitly stated in our report, 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.

Opinions on other matters prescribed by the Companies Act 2006

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

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

- the information given in the Strategic Report and the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

Matters on which we are required to report by exception continued

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

The extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities are instances of non-compliance with laws and regulations. The objectives of our audit are to obtain sufficient appropriate audit evidence regarding compliance with laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements, to perform audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements, and to respond appropriately to identified or suspected non-compliance with laws and regulations identified during the audit.

In relation to fraud, the objectives of our audit are to identify and assess the risk of material misstatement of the financial statements due to fraud, to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud through designing and implementing appropriate responses and to respond appropriately to fraud or suspected fraud identified during the audit.

However, it is the primary responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations and for the prevention and detection of fraud.

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud, the group audit engagement team:

- obtained an understanding of the nature of the industry and sector, including the legal and regulatory frameworks that the group and parent company operate in and how the group and parent company are complying with the legal and regulatory frameworks;
- inquired of management, and those charged with governance, about their own identification and assessment of the risks of irregularities, including any known actual, suspected or alleged instances of fraud;
- discussed matters about non-compliance with laws and regulations and how fraud might occur including assessment of how and where the financial statements may be susceptible to fraud

SANDSTONE RESIDENTIAL REIT PLC

CONTINUED REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF SANDSTONE RESIDENTIAL REIT PLC

The most significant laws and regulations were determined as follows:

Legislation / Regulation	Additional audit procedures performed by the audit engagement team included:
UK adopted IAS and Companies Act 2006	Review of the financial statement disclosures and testing to supporting documentation; Completion of disclosure checklists to identify areas of non-compliance
REIT legislation	Review of the REIT status assessment prepared by management. Inspection of any advice received from external tax advisors

The areas that we identified as being susceptible to material misstatement due to fraud were:

Risk	Audit procedures performed by the audit engagement team:
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.

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

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:
Alan Aitchison
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Alan Aitchison (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
Third Floor
Centenary House
69 Wellington Street
Glasgow
G2 6HG
3/2/2023

SANDSTONE RESIDENTIAL REIT PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 30 SEPTEMBER 2022

		Period from 10 June 2021 to 30 September 2022		
	Notes	Revenue £'000	Capital £'000	Total £'000
Revenue				
Rental income		114	–	114
Total revenue		**114**	**–**	**114**
Unrealised loss on revaluation of investment properties	6	–	(60)	(60)
Total income		**114**	**(60)**	**54**
Expenditure				
Direct property expenses		(52)	–	(52)
Total expenditure		**(52)**	**–**	**(52)**
Profit/(loss) before finance costs and taxation		**62**	**(60)**	**2**
Finance costs	2	(31)	–	(31)
Profit/(loss) before taxation		**31**	**(60)**	**(29)**
Taxation	3	–	–	–
Profit/(loss) and total comprehensive income for the period		**31**	**(60)**	**(29)**
Basic and diluted earnings per share	4	**0.01**	**(0.02)**	**(0.01)**

The total column of this statement represents the Group's Consolidated Statement of Comprehensive Income, prepared in accordance with applicable law and UK adopted International Accounting Standards.

The supplementary revenue return and capital return columns are prepared under guidance published by the Association of Investment Companies.

All revenue and capital items in the above statement are derived from continuing operations.

Operations acquired during the period are disclosed in note 7. No operations were discontinued during the period.

The accompanying notes are an integral part of these Financial Statements.

SANDSTONE RESIDENTIAL REIT PLC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE PERIOD ENDED 30 SEPTEMBER 2022

	Notes	As at 30 September 2022 £'000
Non-current assets		
Furnishings	5	81
Investment properties	6	3,300
		3,381
Current assets		
Trade and other receivables	8	458
Cash and cash equivalents	9	123
		581
Total assets		**3,962**
Non-current liabilities		
Loans	10	(596)
		(596)
Current liabilities		
Trade and other payables	12	(58)
Redeemable preference shares	11	(50)
		(108)
Total liabilities		**(704)**
Net assets		**3,258**
Equity and reserves		
Share capital	14	31
Share premium		3,340
Capital reserve – investments held		(60)
Merger reserve	7	(84)
Revenue reserve		31
Equity shareholders' funds		**3,258**
Net asset value per Ordinary Share	13	**1.06**

The accompanying notes are an integral part of these Financial Statements.

Company Number: SC701230

The financial statements on pages 15 to 30 were approved by the Board of Directors on 3/2/2023 and signed on its behalf by:

DocuSigned by:
Peter Grant
FA3A7AA4888040C...

Peter Grant
Chairman

SANDSTONE RESIDENTIAL REIT PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 SEPTEMBER 2022

	Notes	Share capital £'000	Share premium £'000	Capital reserve – investments held £'000	Merger reserve £'000	Revenue reserve £'000	Total equity £'000
As at 10 June 2021		–	–	–	–	–	–
Acquisition of subsidiary	7	–	–	–	(84)	–	(84)
Profit/(loss) and total comprehensive income for the period		–	–	(60)	–	31	(29)
Transactions with owners recognised in equity:							
Shares issued during the period	14	31	3,340	–	–	–	3,371
As at 30 September 2022		**31**	**3,340**	**(60)**	**(84)**	**31**	**3,258**

The accompanying notes are an integral part of these Financial Statements.

SANDSTONE RESIDENTIAL REIT PLC

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 30 SEPTEMBER 2022

	Notes	Period ended 30 September 2022 £'000
Cash flows from operating activities		
Loss before tax		(29)
Adjustments for:		
Interest paid		31
Depreciation		17
Unrealised loss on revaluation of investment properties		60
Operating cash flows before working capital changes		**79**
Increase in trade and other receivables		(9)
Increase in trade and other payables		58
Net cash inflow from operating activities		**128**
Cash flows from investing activities		
Acquisition of furnishings	5	(46)
Capital expenditure on investment properties	6	(166)
Acquisition of investment properties		(649)
Acquisition of subsidiary, net of cash acquired	7	7
Net cash outflow from investing activities		**(854)**
Cash flows from financing activities		
Shares issued during the period		875
Loan arrangement fees		(4)
Interest paid		(22)
Net cash inflow from financing activities		**849**
Net increase in cash and cash equivalents		**123**
Opening cash and cash equivalents		–
Closing cash and cash equivalents	9	**123**

The accompanying notes are an integral part of these Financial Statements.

1. ACCOUNTING POLICIES

BASIS OF PREPARATION

The consolidated financial statements for the period from incorporation on 10 June 2021 to 30 September 2022, are in accordance with applicable law and UK adopted International Accounting Standards. The consolidated financial statements have been prepared on a historical cost basis, except for investment properties which have been measured at fair value.

The subsidiary included in the consolidated financial statements, from the effective date of acquisition, is Grant and McLaren Limited.

The consolidated financial statements present the results of the Company and its subsidiary ("the Group") as if they formed a single entity.

The notes and financial statements are presented in pounds sterling, being the functional currency of the Company and presentational currency for the Group and are rounded to the nearest thousand except where otherwise indicated.

GOING CONCERN

The financial statements have been prepared on a going concern basis. This requires the directors to consider, as at the date of approving the financial statements, that there is reasonable expectation that the Group has adequate financial resources to continue to operate, and to meet its liabilities as they fall due for payment, for at least twelve months following the approval of the financial statements.

The Group has undertaken procedures to ensure that the Group has sufficient cash resources and bank facilities and with sufficient covenant margin to manage the business under going concern principles. These procedures included the following:

- Reviewing and establishing that cash balances and bank facilities are sufficient to cover at least twelve months of operations;
- Review of financial covenant ratios and the Group's ability to meet the covenants for a period of at least twelve months of operation; and
- Reviewing cash flow forecast scenarios. Any decision on property acquisitions and developments in the next twelve months will be taken following review of revised cash flow forecasts.

The directors believe that there are currently no material uncertainties in relation to the Group's ability to continue for a period of at least 12 months from the date of approval of the Group's financial statements. The board is, therefore, of the opinion that the going concern basis adopted in the preparation of the annual report is appropriate.

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the period end date and the amounts reported for revenue and expenses during the period. The nature of the estimation means that actual outcomes could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis.

KEY ESTIMATES

The only significant source of estimation uncertainty relates to the investment property valuations. The fair value of investment properties is determined by independent real estate valuation experts using recognised valuation techniques. Each property has been valued on an individual basis. The properties have been valued on the basis of 'Fair Value' in accordance with the current editions of RICS Valuation – Global Standards, which incorporate the International Valuation Standards, and the RICS UK National Supplement. In line with the recommendation of the European Public Real Estate Association, all properties have been deemed to be Level 3 under the fair value hierarchy classification set out below. This is described in more detail in note 6. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

The fair value measurement for the assets and liabilities are categorised into different levels in the fair value hierarchy based on the inputs to valuation techniques used. The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: unobservable inputs for the asset or liability. Value is the Directors' best estimate, based on advice from relevant knowledgeable experts, use of recognised valuation techniques and on assumptions as to what inputs other market participants would apply in pricing the same or a similar instrument. As explained in more detail in note 6, all investment properties are included in Level 3.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the transfer has occurred.

KEY JUDGEMENTS

Key judgements relate to property acquisitions and accounting for business combinations under common control where different accounting policies could be applied and operating lease contracts. These are described in more detail below, or in the relevant notes to the financial statements.

KEY JUDGEMENTS CONTINUED

PROPERTY ACQUISITIONS
The Group acquires real estate either as individual properties or as the acquisition of a portfolio of properties either directly or through the acquisition of a corporate entity. Management considered that an integrated set of activities, capable of being independently conducted and managed for the purpose of generating a return, was not acquired in addition to the property, and as such, accounted for the acquisition as an addition to the property portfolio, rather than a business combination.

BUSINESS COMBINATIONS UNDER COMMON CONTROL
Prior to becoming a subsidiary of the Company, Grant and McLaren Limited was closely controlled by a common shareholder at the time of the transaction. The Directors considered the accounting policies that should be applied in respect of the consolidation of the Group formed in anticipation of Admission to The International Stock Exchange (TISE). They concluded the transaction described above represented a combination of entities under common control and in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, the Directors have adopted pooling of interests method as they believe this reflects the economic substance of the transaction. Under this method, assets and liabilities are recorded at book value, not fair value, intangible assets and contingent liabilities are recognised only to the extent that they were recognised by the acquiree and no goodwill is recognised and comparative amounts, if applicable, are restated as if the combination had taken place at the beginning of the earliest accounting period presented. The Directors have judged that as the REIT did not exist beforehand from the perspective of the combining parties, that the combination affects only the values assigned to the assets and liabilities of Grant and McLaren Limited when control was obtained. Accordingly this business combination has been accounted for prospectively from the date of the transaction of 16 September 2021 and no comparatives have been presented.

OPERATING LEASE CONTRACTS – THE GROUP AS LESSOR
The Group has determined, based on an evaluation of the terms and conditions of the arrangements, particularly the duration of the lease terms and minimum lease payments, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the leases as operating leases. Management has applied judgement by considering key new leases this period and have assessed that no lease exceeds a term of one year and as such determined that the terms and conditions of the arrangements do not result in a transfer of significant risks and rewards of ownership of these properties and that these should therefore be accounted for as operating leases.

BASIS OF CONSOLIDATION
The consolidated financial statements comprise the financial statements of the Company and its subsidiary drawn up to 30 September 2022. Subsidiaries are those entities, including special purpose entities, controlled by the Company and are detailed in note 7. Control exists when the Company is exposed, or has rights, to variable returns from its investment with the investee and has the ability to affect those returns through its power over the investee. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of the subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The consolidated financial statements incorporate the results of business combinations using the book value method. In the statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their acquired book value at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date on which control ceases.

In preparing the Consolidated Financial Statements, intra-Group balances, transactions and unrealised gains or losses have been eliminated in full. Uniform accounting policies are adopted for all companies within the Group.

Transaction costs, other than those associated with the issue of debt or equity securities that the Group incurs in connection with a business combination are expensed as incurred.

SEGMENTAL INFORMATION
The board is of the opinion that the Group is engaged in a single segment business, being the investment in the United Kingdom in residential assets.

REVENUE RECOGNITION
Rental income arising on investment properties is accounted for in the Statement of Comprehensive Income on a straight-line basis over the terms of the individual leases.

Rental income received in advance is recognised in deferred income.

EXPENSES RECOVERABLE FROM TENANTS
Where expenses are recharged to tenants, the expense and the income received in reimbursement are offset within the Statement of Comprehensive Income and are not separately disclosed, as the Directors consider that the Group acts as agent in this respect. Property-related expenses that are not recoverable from tenants are recognised in expenses on an accruals basis.

OTHER EXPENSES
Expenses are accounted for on an accruals basis. The Group's administration fees, finance costs and all other expenses are charged to revenue through the Statement of Comprehensive Income.

DIVIDENDS PAYABLE
Dividends are accounted for in the period in which they are paid. All of the dividends are paid as interim dividends and the dividend policy is put to shareholders for approval.

TAXATION
The Group is a REIT and is thereby exempt from tax on both rental profits and chargeable gains. In order to retain REIT status, certain ongoing criteria must be maintained. The main criteria are as follows:

- at the start of each accounting period, the assets of the tax-exempt business must be at least 75% of the total value of the Group's assets;
- at least 75% of the Group's total profits must arise from the tax-exempt business;
- at least 90% of the tax-exempt rental business profits must be distributed in the form of Property Income Distributions within a specified time limit; and
- the Group must hold a minimum of three properties with no single property exceeding 40% of the portfolio value.

The Directors intend that the Group should continue as a REIT for the foreseeable future, with the result that deferred tax is not recognised on temporary differences relating to the property rental business which is within the REIT structure.

Taxation on any profit or loss for the period not exempt under UK-REIT regulations comprises current and deferred tax. Taxation is recognised in the Statement of Comprehensive Income except to the extent that it relates to items recognised as direct movements in equity, in which case it is also recognised as a direct movement in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates and laws enacted or substantively enacted at the period-end date.

Deferred 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 calculated using rates and laws enacted or substantively enacted by the end of the period expected to apply. Deferred 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 tax relating to items recognised directly in equity is recognised in equity and not in profit or loss.

FURNISHINGS
Furnishings are stated at cost less accumulated depreciation.

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life.

Furnishings - 20% on cost

INVESTMENT PROPERTIES
Investment properties are properties held to earn rentals or for capital appreciation, or both, and are accounted for using the fair value model.

Investment properties are revalued bi-annually with resulting gains and losses recognised in profit or loss. These are included in the consolidated statement of financial position at their fair values.

Investment properties consist of land and buildings which are not occupied for use by or in the operations of the Group or for sale in the ordinary course of business but are held to earn rental income together with the potential for capital and income growth.

Investment properties are initially recognised at the fair value of consideration given, including transaction costs associated with the investment property. Any subsequent capital expenditure incurred in improving investment properties is capitalised in the period incurred and included within the book cost of the property.

After initial recognition, investment properties are measured at fair value, with gains and losses recognised in the Statement of Comprehensive Income. Fair value is based on an open market valuation provided by Allied Surveyors Scotland PLC and IQS Limited, at the period-end date using recognised valuation techniques. Costs of maintenance, repairs and minor improvements are expensed as incurred.

The determination of the fair value of investment properties is principally based upon comparison with recent vacant possession sales of similar properties. These estimates are based on local market conditions existing at the reporting date.

Investment property is derecognised when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal. On derecognition, gains and losses on disposals of investment properties are recognised in the Statement of Comprehensive Income and transferred to the capital reserve – investments sold. Recognition and derecognition occurs on the completion of a sale.

CASH AND CASH EQUIVALENTS
Cash and cash equivalents consist of cash in hand and short-term deposits in banks with an original maturity of three months or less.

TRADE AND OTHER RECEIVABLES
Rents receivable, which are generally due for settlement at the relevant month end, are recognised and carried at the original invoice amount less an allowance for any uncollectable amounts. An expected credit loss methodology is applied to applicable trade and other receivables. Expected credit losses are recognised in the Statement of Comprehensive Income as part of the ongoing assessment. Any incurred losses are written off when identified. The REIT is protected through the tenant deposit and guarantee arrangements that are in place. As a consequence any expected credit losses ('ECLs') would be sufficiently immaterial for it to be recognised in the financial statements.

TRADE AND OTHER RECEIVABLES CONTINUED

The Group applies the IFRS 9 simplified approach to measuring the expected credit losses ('ECLs') for trade receivables whereby the allowance or provision for all trade receivables are based on the lifetime ECLs. The Group considers historical defaults over the expected life of the trade receivables and any information related to the debtors available at period end to determine forward-looking estimates of possible defaulting.

REDEEMABLE PREFERENCE SHARES

Preference shares are redeemable at the par value by the Company and are entitled to a non-discretionary dividend of 0.0001%. Redeemable preference shares are preference shares which are repayable by the Company at a future date. On this date the shares are cancelled and the shareholders repaid. These shares have the characteristics of debt. They are therefore classified as a liability on the statement of financial position, and no cumulative dividend has been recognised given the trifling sum involved.

INTEREST-BEARING LOANS

All loans are initially recognised at the fair value of the consideration received net of arrangement costs associated with the borrowing. After initial recognition, all interest-bearing loans are subsequently measured at amortised cost; any difference is recognised in the Statement of Comprehensive Income over the period of the borrowing using the effective interest method. Amortised cost is calculated by taking into account any loan arrangement costs and any discount or premium on settlement.

The Company discloses the bases and impact of early repayment of debt and also the fair value of the loans but includes the creditor amounts on the accounting policy above.

SHARE CAPITAL

Ordinary shares are classified as equity. Costs directly attributable to the issue of Ordinary shares are recognised as a deduction from equity.

SHARE PREMIUM

The surplus of net proceeds received from the issuance of new shares over their par value is credited to this account and the related issue costs are deducted from this account. The reserve is non-distributable.

CAPITAL RESERVES

The following are accounted for in the capital reserve – investments sold:

- realised gains and losses arising on the disposal of investment properties.

The following are accounted for in the capital reserve – investments held:

- increases and decreases in the fair value of investment properties held at the period end.

MERGER RESERVE

The merger reserve arose on the acquisition of the subsidiary, Grant and McLaren Limited. The merger reserve represents the difference between the net book value of the net assets acquired less the cost value of the shares issued for the acquisition of the Company and the stamp duty payable in respect of this transaction.

REVENUE RESERVE

The net profit or loss arising in the revenue column of the Statement of Comprehensive Income is added to or deducted from this reserve which is available for paying dividends.

CAPITAL MANAGEMENT

The Group's capital is represented by the Ordinary Shares, share premium, capital reserves and revenue reserve. The Group is not subject to any externally-imposed capital requirements except for the requirement as a REIT to distribute at least 90% of its tax-exempt rental business profits.

The capital of the Group is managed in accordance with its investment policy, in pursuit of its investment objective. Capital management activities may include the allotment of new shares, the buy back or re-issuance of shares from treasury, the management of the Group's discount to net asset value and consideration of the Group's net gearing level.

There have been no changes in the capital management objectives and policies or the nature of the capital managed during the period

NEW AND AMENDED STANDARDS AND INTERPRETATIONS APPLIED IN THESE CONSOLIDATED FINANCIAL STATEMENTS.

On incorporation, the Company adopted all of the IFRS standards and interpretations that were in effect at that date and are applicable to the Group.

STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following standard has been issued but are not effective for this accounting period and has not been adopted early:

- **IAS 1 (amended)** – Amendments regarding classifications of liabilities, and disclosure of accounting policies – effective from 1 January 2023.
- **IAS 8 (amended)** – Amendments regarding the definition of accounting estimates – effective from 1 January 2023.
- **IAS 12 (amended)** – Amendments regarding deferred tax on leases and decommissioning obligations – effective from 1 January 2023.

Adoption of the new or amended standards and relevant interpretations in future periods is not expected to have a material impact on the financial statements of the Group.

The Group does not consider the adoption of any new standards or amendments, other than those noted above to be applicable to the Group.

2. FINANCE COSTS

	Period ended 30 September 2022 £'000
Loan interest	31
Total	**31**

3. TAXATION

As a REIT, the Group is exempt from corporation tax on the profits and gains from its property investment business, provided it continues to meet certain conditions as per REIT regulations. For the period ended 30 September 2022, the Group did not have any non-qualifying profits.

Tax charge in the consolidated statement of comprehensive income:

	Period ended 30 September 2022 £'000
Total tax charge	**–**

A reconciliation of the corporation tax charge applicable to the results at the statutory corporation tax rate to the charge for the period is as follows:

	Period ended 30 September 2022 £'000
Loss before taxation	(29)
UK tax at a rate of 19.0%	(6)
Effects of:	
Income and expenses not taxable	6
Total tax charge	–

The Group has remained under the REIT regime throughout the period and since the incorporation date.

Under the UK REIT rules within which the Group operates, capital gains on the Group's UK properties are generally exempt from UK corporation tax, provided they are not held for trading.

4. EARNINGS PER SHARE

Basic and diluted earnings per share.

	Period ended 30 September 2022	
	£'000	£ per share
Revenue earnings	31	0.01
Capital earnings	(60)	(0.02)
Total earnings	(29)	(0.01)
Average number of shares in issue		1,693,574

5. FURNISHINGS

	As at 30 September 2022 £'000
Opening book cost	–
Acquisition of subsidiary	52
Other additions during the period	46
Depreciation for the period	(17)
Closing book cost	98
Closing accumulated depreciation	(17)
Closing net book value	**81**

6. INVESTMENT PROPERTIES

Freehold and leasehold properties	As at 30 September 2022 £'000
Opening book cost	–
Acquisition of subsidiary at book value	1,295
Other property additions during the period	1,899
Capital expenditure	166
Closing book cost	**3,360**
Opening unrealised appreciation	–
Unrealised loss on investment properties	(60)
Closing unrealised (depreciation)/appreciation	**(60)**
Movement in fair value	**(60)**
Closing fair value	**3,300**

At 30 September 2022, the investment properties were valued at £3,300,000 Allied Surveyors Scotland PLC and IQS Limited. The valuations were undertaken in accordance with the current editions of RICS Valuation – Global Standards, which incorporate the International Valuation Standards, and the RICS UK National Supplement. Fair value is based on an open market valuation (the price that would be received to sell an asset, in an orderly transaction between market participants at the measurement date, provided by Allied Surveyors Scotland PLC and IQS Limited, on a bi-annual basis, using recognised valuation techniques as set out in the Group's accounting policies.

The Directors determined that there were no material factors that would give rise to there being a material variance between the latest external valuation and the fair value as at 30 September 2022.

INVESTMENT PROPERTIES CONTINUED

Fair value is based on current prices in an active market for similar properties in the same location and condition. The current price is the estimated amount for which a property could be exchanged between a willing buyer and willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Valuations are based on a market approach which provides an indicative value by comparing the property with other similar properties for which price information is available. Comparisons have been adjusted to reflect differences in age, size, condition, location and any other relevant factors.

The fair value for investment properties has been categorised as Level 3 inputs under IFRS 13. The valuer visited all material properties where full valuations were carried out in the current period and these valuations were based on both internal and external site visits.

If properties had been included on a historical cost basis, the cost of the properties at 30 September 2022 would have been £3,396,000.

During the period, the Group acquired four properties as part of the take-on of Grant and McLaren Limited on the 16th of September 2021, as well as four additional properties on the 30th November 2021 and a further additional eight properties on the 29th of September 2022.

On 29 September, the issue of 1,201,923 shares were allotted upon the exchange of the eight properties valuing at £1,300,000 less a £50,000 cash consideration.

The revenue earned by the Group from its investment properties and all direct operating expenses incurred on its investment properties are recorded in the Consolidated Statement of Comprehensive Income.

The total rental income in relation to investment properties for the Group equated to £114,000.

Included within Investment Properties are long leasehold properties valued at £335,000 and freehold properties valued at £2,965,000.

7. BUSINESS COMBINATIONS UNDER COMMON CONTROL

Grant and McLaren Limited is a wholly-owned subsidiary of Sandstone Residential REIT PLC and is incorporated in Scotland (Company number: SC675864) with registered address 14 Coates Crescent, Edinburgh, Scotland, EH3 7AF. Grant and McLaren Limited was incorporated on 29 September 2020 and began trading on 18th December 2020. On 16th of September 2021, Sandstone Residential REIT PLC acquired Grant and McLaren Limited with a net liability value of £84,000. The net asset value of Grant and McLaren Limited as at 30 September 2022 was £645,000. The loss of Grant and McLaren Limited for the period to 30 September 2022 was £31,000 and it also received a capital contribution of £758,000.

Assets acquired and liabilities assumed.

The book values of the identifiable assets and liabilities of Grant and McLaren Limited as at the date of acquisition were:

	Fair value recognised on acquisition £'000
Assets	
Furnishings	52
Investment property	1,295
Cash and cash equivalents	7
Trade and other receivables	3
Liabilities	
Bank Loans	(591)
Other Loans	(850)
Total identifiable net liabilities at book value	**(84)**
Merger reserve arising on acquisition	(84)
Purchase consideration	–

The merger reserve reflects the difference between the net asset value of Grant and McLaren and Limited and the consideration of £1 for the share capital.

8. TRADE AND OTHER RECEIVABLES

	As at 30 September 2022 £'000
Prepayments	6
Amounts due from Sandstone UK Property Investment Ltd	4
Trade debtor	2
Amounts due from Peter Grant	446
Total	**458**

The Group and Company's exposure to credit risk is disclosed in note 17.

There is no material difference between the fair value of trade and other receivables and their book value.

All receivables are due within 12 months of 30 September 2022. As no material credit losses are expected, no expected credit losses have been recognised.

9. CASH AND CASH EQUIVALENTS

All cash balances at the period-end were held in cash, current accounts or deposit accounts.

	As at 30 September 2022 £'000
Cash and cash equivalents	123
Total	**123**

10. LOANS

	As at 30 September 2022 £'000
Principal amount outstanding	(600)
Loan arrangement fees	4
Total	**(596)**

The Group has outstanding loans in place with Shawbrook Bank Limited in relation to its Property Portfolio totalling approximately £600,000. This financing is on an interest only basis and is long term in nature.

Details of the principal loans are as follows:

In August 2021, Grant and McLaren Limited entered into a 10 year loan, net of costs, of £219,670 with Shawbrook Bank Limited. The monthly instalments are interest payments and do not include any capital repayments. Interest is charged at 4.54 percent for the first five years of the facility at which point it will revert to the lenders variable rate. The loan is secured by a charge over the property known as 30 Blackwood Crescent, Edinburgh. The balance outstanding at 30 September 2022 was £237,288 with a fair value of £237,746 and a repayment value of £243,894.

In March 2021, Grant and McLaren Limited entered into a 10 year loan, net of costs, of £107,225 with Shawbrook Bank Limited. The monthly instalments are interest payments and do not include any capital repayments. Interest is charged at 4.54 percent for the first five years of the facility at which point it will revert to the lenders variable rate. The loan is secured by a charge over the property known as 18 White Street, Glasgow. The balance outstanding at 30 September 2022 was £151,173 with a fair value of £152,000 and a repayment value of £155,455.

In December 2021, Grant and McLaren Limited entered into a 10 year loan, net of costs, of £194,625 with Shawbrook Bank Limited to refinance an existing loan. The monthly instalments are interest payments and do not include any capital repayments. Interest is charged at 4.24 percent for the first five years of the facility at which point it will revert to the lenders variable rate. The loan is secured by a charge over the property known as Mauldeth Road West, Manchester. The balance outstanding at 30 September 2022 was £211,605 with a fair value of £212,466 and a repayment value of £217,518.

The terms of the loans state that 10 percent of the loan can be repaid without charge with an early settlement charge of 3 percent plus an additional £200 administration fee.

10. LOANS CONTINUED

Under the covenants related to the loans and notes the Group is required to ensure that the loan to value does not exceed 65 percent and the interest cover does not exceed 125 percent. The Group has been in compliance with all the financial covenants of the loan facilities as applicable throughout the period covered by these financial statements.

Any fees associated with arranging the loans unamortised as at the period end are offset against amounts drawn on the facilities as shown in the table below:

	As at 30 September 2022 £'000
Loans drawn: due after more than one year	(600)
Arrangement fees incurred during the period	4
Non-current liabilities	**(596)**

Maturity analysis of loans:

	As at 30 September 2022 £'000
Repayable between one and two years	–
Repayable between two and five years	–
Repayable in over five years	(596)
Non-current liabilities	**(596)**

The weighted average term of the Group's committed facilities is 8.9 years.

Reconciliation of net movement in cash and financing activities

	Cash and cash equivalents 2022 £'000	Other loans 2022 £'000	Borrowings 2022 £'000	Net debt 2022 £'000
Opening balance as at 10 June 2021	–	–	–	–
Loan balance acquired	–	850	(591)	259
Cash flows	123	–	4	127
Non-cash flows	–	(850)	(9)	(859)
Closing balance as at 30 September 2022	**123**	**–**	**(596)**	**(473)**

11. REDEEMABLE REFERENCE SHARES

On 16 September 2021, the Company issued 50 000 preference shares with a par value of £1 per share. The preference shares are redeemable at the par value by the Company and are entitled to a non-discretionary dividend of 0.0001%. The redeemable preference shares can be paid back at any time at par.

12. TRADE AND OTHER PAYABLES

	As at 30 September 2022 £'000
Other payables	58
Total	**58**

The Group's payment policy is to ensure settlement of supplier invoices in accordance with stated terms.

The Group and Company exposure to liquidity risk related to trade and other payables is disclosed in note 17. There is no material difference between the fair value of trade and other payables and their book value.

13. NET ASSET VALUE

	Period ended 30 September 2022	
	£'000	Total number of shares in issue
Net asset value	3,258	3,072,654
£ per share		1.06

The Group's net asset value per Ordinary Share of £1.06 is based on equity shareholders' funds of £3,258,000 and on 3,072,654 Ordinary Shares, being the number of shares in issue at the period end.

14. SHARE CAPITAL

Allotted, called-up and fully paid Ordinary Shares of £0.01 pence par value	Number of shares	£'000
Opening balance as at 10 June 2021	–	–
Issue of Ordinary Shares	3,072,654	31
Closing balance as at 30 September 2022	**3,072,654**	**31**

Ordinary shareholders are equally entitled to all dividends declared by the Company and to all of the Company's assets after repayment of its loans, ordinary creditors and preference shares. Ordinary shareholders have the right to vote at meetings of the Company. All Ordinary Shares carry equal voting rights.

15. RELATED PARTIES

Transactions

The REIT does not have any employees. All of the Directors' fees were paid by the Investment manager. Alan Robertson receives an annual fee of £25,000 in respect of his directorship of the REIT. Peter Grant and Lindsay Campbell also receive fees from Sandstone Asset Management Limited, however it is impractical to apportion the relevant portion of their fees which are attributable to their Directorships on the REIT.

During the period Grant and McLaren Limited was acquired from Peter Grant, a shareholder and director of the Group. At the time of acquisition, a consideration of £1 was paid for Grant and McLaren Limited which had net liabilities of £84,000. Refer to note 7 for further details.

Sandstone Property Management Services Limited, a company of which Peter Grant is a director and ultimate beneficial owner, has received property manager fees of £13,000 in relation to the period ended 30 September 2022, of which £nil remained payable at the period end.

Sandstone UK Property Investment Limited, a company of which Peter Grant is a director and ultimate beneficial owner, has received property sourcing fees of £6,000 in relation to the period ended 30 September 2022, of which £nil remained payable at the period end.

Sandstone UK Property Investment Limited has received fees for renovation works of £166,000 in relation to the period ended 30 September 2022, of which £nil remained payable at the period end.

Sandstone UK Property Investment Limited sourced and supplied furnishings to the Group with the cost of £46,000. This is reflected in the acquisitions for the period in note 5.

The audit fees of the Group total £41,500 and have been borne by Sandstone Capital Limited, a company of which Peter Grant is director and sole owner.

Balances

As at 30 September 2022, the Group is owed an amount due from Sandstone UK Property Investment Limited of £4,000. In addition, the Group is owed an amount due from Peter Grant, including £50,000 preference shares, of £446,000. The intention is to redeem the preference shares once there are sufficient distributable reserves. In relation to the remaining balance, immediately subsequent to the period end, £111,000 of this amount was settled and the remaining balance will be settled within twelve months of the reporting date.

As the REIT has only recently launched, Sandstone UK Property Investment Limited has agreed to underwrite the set-up and many of the administrative costs relating to the REIT. However, Sandstone UK Property Investment Limited reserves the right to recharge these costs once the REIT has scaled up and goes for an initial public offering on the London Stock Exchange.

The aggregate shareholding of Peter Grant as at 30 September 2022 is 1,000,001 shares, 32.5 per cent of the issued share capital as at that date. Included within this total are 758,245 of shares where Peter Grant holds the shares as the legal nominee for a Company he is the ultimate beneficial owner of. No other directors hold any shares in the Company.

16. OPERATING SEGMENTS

The Board has considered the requirements of IFRS 8 'Operating Segments'. The Board is of the view that the Group is engaged in a single unified business, being property investment, and in one geographical area, the United Kingdom, and that therefore the Group has no segments. The Board of Directors, as a whole, has been identified as constituting the chief operating decision maker of the Group. The key measure of performance used by the Board to assess the Group's performance is the total return on the Group's net asset value. As the total return on the Group's net asset value is calculated based on the net asset value per share calculated under IFRSs as shown at the foot of the Consolidated Statement of Financial Position, the key performance measure is that prepared under IFRSs. Therefore, no reconciliation is required between the measure of profit or loss used by the Board and that contained in the Financial Statements.

The view that the Group is engaged in a single unified business is based on the following considerations:

- one of the key financial indicators received and reviewed by the Board is the total return from the property portfolio taken as a whole;
- there is no active allocation of resources to particular types or groups of properties in order to try to match the asset allocation of an index or benchmark; and
- the management of the portfolio is ultimately delegated to a single property manager, Sandstone Asset Management Limited.

17. FINANCIAL INSTRUMENTS

Consistent with its objective, the Group holds UK residential property investments. In addition, the Group's financial instruments comprise cash and receivables and payables that arise directly from its operations. The Group does not have exposure to any derivative instruments.

The Group is exposed to various types of risk that are associated with financial instruments. The most important types are credit risk, liquidity risk and market risk. There is no foreign currency risk as all assets and liabilities of the Group are maintained in pounds sterling. The Group has insignificant exposure to market price risk related to financial instruments.

The Board reviews and agrees policies for managing the Group's risk exposure. These policies are summarised below and have remained unchanged for the period under review. These disclosures include, where appropriate, consideration of the Group's investment properties which, whilst not constituting financial instruments as defined by IFRSs, are considered by the Board to be integral to the Group's overall risk exposure.

The following table summarises the Group's financial assets and liabilities into the categories required by IFRS 7 'Financial Instruments: Disclosures':

	As at 30 September 2022	
	Held at fair value through profit or loss £'000	Financial assets and liabilities at amortised cost £'000
Financial assets		
Trade and other receivables	–	447
Cash and cash equivalents	–	123
	–	**570**
Financial liabilities		
Loans	–	(596)
Redeemable preference shares	_	(50)
Trade and other payables	–	(58)
	–	**(704)**

Apart from the loans, as disclosed in note 10, the fair value of financial assets and liabilities is not materially different from their carrying value in the financial statements.

CREDIT RISK

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk is as reported in the statement of financial position.

The Group undertakes credit checks on prospective new tenants to assess and mitigate credit risk. The checks include verification of income levels and capacity to pay, as well as checks of rental references. Any arrears are actively managed. The Group mitigates credit risk with regard to cash and cash equivalents by using banks with a credit rating of B or above.

17. FINANCIAL INSTRUMENTS CONTINUED

LIQUIDITY RISK

Liquidity risk is the risk that the Company and Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's and Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's and Group's reputation.

Property and property-related assets in which the Group invests are not traded in an organised public market and are relatively illiquid assets, requiring individual attention to sell in an orderly way. As a result, the Group may not be able to liquidate quickly its investments in these properties at an amount close to their fair value in order to meet its liquidity requirements.

Liquidity risk is not deemed to be significant as the Group's main creditors are bank loans which are long term with only the interest needing to be met over the term of the loans and this is met by recurring rental income. The Group has debtors which are expected to be settled within twelve months of the reporting date. Trading operations are liquid and cash positive enabling the Group to distribute net income in line with dividend policy.

At the reporting date, the financial liabilities on a contractual undiscounted maturity basis were:

FINANCIAL LIABILITIES AS AT 30 SEPTEMBER 2022

	Three months or less £'000	More than three months but less than one year £'000	More than one year but less than three years £'000	More than three years £'000	Total £'000
Loans	(7)	(20)	(53)	(757)	(837)
Redeemable preference shares	–	(50)	–	–	(50)
Other payables	(58)	–	–	–	(58)
Total	**(65)**	**(70)**	**(53)**	**(757)**	**(945)**

Market risk

Market risk is the risk that changes in market prices, such as interest rate and equity prices will affect the Group and the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimising the return.

The Group is exposed to two interest rate risks arising; cash flow interest rate risk in respect of variable rates and fair value interest rate risk in respect of fixed rates. The Group mitigates these risks by entering into loans that are fixed for an appropriate part of its term and variable thereafter.

Sensitivity

Interest rate sensitivity:

At 30 September 2022, if interest rates had been 0.5 percentage point higher and all other variables were held constant, it is estimated that the Group's loss before tax would increase to £29,160. This is attributable to the Group's exposure on its loans and is based on the change taking place at the beginning of the reporting period and held constant throughout the reporting period.

18. CAPITAL COMMITMENTS

The Group had no contractual commitments for the period.

19. POST BALANCE SHEET EVENTS

There have been no post balance sheet events which require further disclosure.

20. OPERATING LEASES

The Group leases out its investment properties under operating leases. These properties are measured under the fair value model as the properties are held to earn rentals.

In Scotland, the tenancy agreements allow for tenants to serve 28 days' notice to cancel the lease term. Therefore, these leases are considered as cancellable within one year.

In England, where the Group holds one property, the tenancy agreements have a fixed term which is typically one year from the date of entry.

The following table sets out the maturity analysis of lease receivables on the above basis:

	As at 30 September 2022 £'000
Year 1	19
Total	**19**

SANDSTONE RESIDENTIAL REIT PLC

COMPANY STATEMENT OF FINANCIAL POSITION
30 SEPTEMBER 2022

	Notes	As at 30 September 2022 £'000
Fixed assets		
Investment in subsidiary undertakings	2	758
Current assets		
Trade and other receivables	3	2,662
Total assets		**3,420**
Current liabilities		
Redeemable preference shares	4	(50)
Total liabilities		**(50)**
Net assets		**3,370**
Equity and reserves		
Share capital	5	31
Share premium		3,340
Revenue reserve		(1)
Equity shareholders' funds		**3,370**
Net asset value per Ordinary Share	8	**1.10**

The accompanying notes are an integral part of these Financial Statements.

The Company made a loss for the Period ended 30 September 2022 of £1,000.

The Company financial statements on pages 31 to 34 were approved by the Board of Directors on 3/2/2023 and signed on its behalf by:

DocuSigned by:
Peter Grant
FA3A7AA4888040C...
Peter Grant
Chairman

SANDSTONE RESIDENTIAL REIT PLC

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 SEPTEMBER 2022

	Notes	Share capital £'000	Share premium £'000	Revenue reserve £'000	Total equity £'000
As at 10 June 2021		–	–	–	–
Loss and total comprehensive income for the period		–	–	(1)	(1)
Transactions with owners recognised in equity:					
Shares issued during the period	5	31	3,340	–	3,371
As at 30 September 2022		**31**	**3,340**	**(1)**	**3,370**

The accompanying notes are an integral part of these Financial Statements.

SANDSTONE RESIDENTIAL REIT PLC

NOTES TO THE COMPANY'S FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2022

1. ACCOUNTING POLICIES
BASIS OF PREPARATION

GENERAL INFORMATION
The financial statements for the period ended 30 September 2022, are prepared in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland ("FRS 102") and in accordance with the Companies Act 2006.

DISCLOSURE EXEMPTIONS ADOPTED
In preparing these financial statements the Company has taken advantage of all disclosure exemptions conferred by FRS 102.

In preparing the separate financial statements of the Company, advantage has been taken of the following disclosure exemptions available in FRS 102:

No statement of cash flows has been presented for the parent company;

The requirement to present related party disclosures between the Company and subsidiary where ownership is all 100%.

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

GOING CONCERN

The financial statements are prepared on the going concern basis as explained for the consolidated financial statements on page 19.

REDEEMABLE PREFERENCE SHARES
Redeemable preference shares are preference shares which are repayable by the Company at a future date. On this date the shares are cancelled and the shareholders repaid. These shares have the characteristics of debt. They are therefore classified as a liability on the statement of financial position.

INVESTMENTS IN SUBSIDIARY UNDERTAKINGS
Investments in subsidiary undertakings are stated at cost less, where applicable, any provision for impairment and will be reduced or increased dependent on the assessment of the recoverable amount of the subsidiary in future.

CAPITAL MANAGEMENT
The Company's capital is represented by the Ordinary Shares, Share Premium, Capital Reserves and Revenue Reserve and is managed in line with the policies set out for the Group on page 22.

COMPANY PROFIT FOR THE FINANCIAL PERIOD AFTER TAX
Under Section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account. The loss after tax for the period was £1,000.

The Company does not have any employees. All of the Directors' fees were paid by the Investment manager. Alan Robertson receive an annual fee of £25,000 in respect of his directorship of the REIT. Peter Grant and Lindsay Campbell also receive fees from Sandstone Asset Management Limited, however it is impractical to apportion the relevant portion of their fees which are attributable to their Directorships on the REIT.

2. INVESTMENT IN SUBSIDIARY

	As at 30 September 2022 £'000
Opening balance	–
Capital contributions	758
Impairment loss	–
Closing balance	**758**

Grant and McLaren Limited is a wholly-owned subsidiary of Sandstone Residential REIT PLC and is incorporated in Scotland (Company number: SC675864) with registered address 14 Coates Crescent, Edinburgh, Scotland, EH3 7AF. Grant and McLaren Limited's share capital comprises an ordinary share of £1 and the nature of its business is to hold and manage investment properties for rental income.

SANDSTONE RESIDENTIAL REIT PLC

CONTINUED NOTES TO THE COMPANY'S FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2022

3. TRADE AND OTHER RECEIVABLES

	As at 30 September 2022 £'000
Amount due from subsidiary undertakings	2,216
Other receivables and prepayments	446
Total	**2,662**

The amount due from subsidiary undertakings reflects the position that the Company does not operate a bank account. The balance principally arises from the receipts on shares issued.

The repayment of the intercompany balance will be dependent on trading cash flows and disposal proceeds, the timing of which is uncertain but may extend to more than 12 months.

Based on the assessment of impairment of the subsidiary, there are no material expected credit losses related to the amounts due from subsidiary undertakings.

4. REDEEMABLE REFERENCE SHARES

On 16 September 2021, the Company issued 50,000 preference shares with a par value of £1 per share. The preference shares are redeemable at the par value by the Company and are entitled to a non-discretionary dividend of 0.0001%.

5. SHARE CAPITAL

Allotted, called-up and fully paid Ordinary Shares of £0.01 pence par value	Number of shares	£'000
Opening balance as at 10 June 2021		
Issue of Ordinary Shares	3,072,654	31
Closing balance as at 30 September 2022	**3,072,654**	**31**

Shares issued during the period to 30 September 2022 are consistent with those detailed in note 14 to the consolidated financial statements on page 28.

Ordinary shareholders are entitled equally to all dividends declared by the Company and to all of the Company's assets after repayment of its loans, ordinary creditors and preference shares. Ordinary shareholders have the right to vote at meetings of the Company. All Ordinary Shares carry equal voting rights.

6. FINANCIAL INSTRUMENTS

The Company's risks associated with financial instruments and the policies for managing its risk exposure are consistent with those detailed in note 17 to the consolidated financial statements on pages 29 to 30.

With regards to the categorisation required by FRS 102 all of the Company financial assets and liabilities are categorised as 'financial assets and liabilities at amortised cost'. The Company's financial assets consist of trade and other receivables. The Company's financial liabilities consist of redeemable preference shares.

At the reporting date, the Company's financial assets exposed to credit risk amounted to £2,662,000, consisting of current account balances due from its wholly-owned subsidiary of £2,216,000 and amounts due from Peter Grant of £446,000 (further details are included in note 15 to the consolidated financial statements).

7. RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemption provided by FRS 102 not to disclose transactions with other members of the Group as the Company's own financial statements are presented together with its consolidated financial statements.

See note 15 of the consolidated financial statements for disclosure of related party transactions of the Group.

8. NET ASSET VALUE

The Company's net asset value per Ordinary Share of £1.10 is based on equity shareholders' funds of £3,370,000 and on 3,072,654 Ordinary Shares, being the number of shares in issue at the period end.