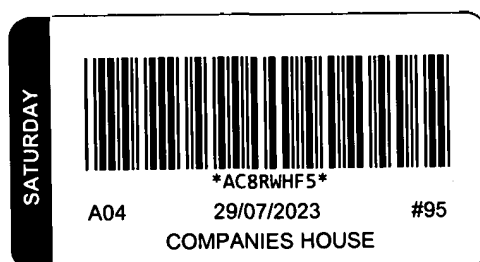


M&G SHARED OWNERSHIP REIT PLC

Annual Report and Financial Statements (audited)
for the year ended 31 March 2023

Registration number: 12596933



M&G SHARED OWNERSHIP REIT PLC

Annual Report and Financial Statements (Audited) 2023

Directory

Directors of the REIT

Chris Perkins
Mark Davie
Alexander Greaves

TISE Listing Sponsor

Carey Olsen Corporate Finance Limited
47 Esplanade
St. Helier
Jersey JE1 0BD

Registered Office of the REIT

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London EC3M 5AG

Property Valuer

Allsop LLP
33 Wigmore Street
London W1U 1BZ

Manager and Alternative Investment Fund

Manager ("AIFM")

M&G Alternatives Investment Management Limited
10 Fenchurch Avenue
London EC3M 5AG

Principal Banker

National Westminster Bank plc
250 Bishopsgate
London, EC2M 4AA

Administrator

Citco Fund Services (Luxembourg) S.A.
20, rue de la Poste,
L-2346 Luxembourg

Property and Asset Manager

M&G Real Estate Limited
10 Fenchurch Avenue
London EC3M 5AG

Auditor

Ernst & Young LLP
Royal Chambers
St. Julian's Avenue
St. Peter Port
Guernsey GY1 4AF

Depository

Citco Custody (UK) Limited
7 Albemarle Street
London W1S 4HQ

Legal Advisers to the REIT

Eversheds Sutherland (International) LLP
One Wood Street
London EC2V 7WS

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M&G SHARED OWNERSHIP REIT PLC

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Company and Operations

M&G Shared Ownership REIT plc (the “REIT”) is a public limited company incorporated in England and Wales under the Companies Act 2006 (“CA 2006”) with company number 12596933 and whose registered address is 10 Fenchurch Avenue, London, United Kingdom, EC3M 5AG. The REIT is resident in the United Kingdom and is registered as an investment company under Section 833 CA 2006. It is a closed-ended investment company with an indefinite life. The shares are listed on The International Stock Exchange (“TISE”) and the REIT, since 1 April 2021, qualified as a group in accordance with Part 12 of the Corporate Tax Act 2010 (“CTA 2010”). The REIT group is managed by M&G Alternatives Investment Management Limited which is authorised and regulated by the Financial Conduct Authority (“FCA”). The REIT group has been formed with M&G UK Shared Ownership Limited (“Company”) of which the REIT is the sole Shareholder.

The REIT is a public company limited by shares. Shareholders’ rights in respect of their investment in the REIT are governed by the Articles, the Listing Document and the Companies Act 2006.

The REIT indirectly invests in a portfolio of residential assets in England which are structured as Shared Ownership units. The assets of the Company currently comprise a mix of standing stock, and in the future will also comprise of forward purchase and forward funding development opportunities with large scale house builders and other registered providers based in England. The REIT is the sole shareholder in the Company, a Registered Provider of Social Housing, that will acquire and hold legal and beneficial title to the assets. The REIT is a closed-ended investment vehicle and is not available to other investors other than the M&G Shared Ownership LP (the “Partnership”).

A REIT is a special tax efficient vehicle that is set up to cater specifically for property rental and letting activities. Listed REITs are quoted companies on a recognised exchange that have the aim of generating rental income or benefit from capital appreciation on property assets. The rental income net of costs is paid to Shareholders as a dividend distribution which forms a significant part of Shareholder returns. UK REITs are exempt from corporation tax on profits generated from qualifying property rental business. With this benefit in mind, a REIT also has to ensure that it distributes 90% of qualifying profits to Shareholders known as property income distributions (“PIDs”) and no corporate body can own more than 10% share in the REIT otherwise they would be a “Holder of excessive rights”.

M&G SHARED OWNERSHIP REIT PLC
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Strategic report

The Directors present the Strategic Report for the financial year ended 31 March 2023.

Principal activity of the business

The REIT is a public limited company, established in the United Kingdom, which will capitalise on M&G's expertise in UK residential property investment by directly holding shares in the Company, a Registered Provider ("RP") invested in shared ownership properties.

The Company has been granted "Registered Provider" status by the UK Regulator of Social Housing (the "Housing Regulator").

The REIT is managed by M&G Alternatives Investment Management Limited (the "Manager") which is the Alternative Investment Fund Manager ("AIFM") for the purpose of the Financial Services and Markets Act 2000 ("FSMA") and subordinate legislation made under the FSMA including the Alternative Investment Fund Managers Regulations 2013, as amended ("AIFMR"). The Manager is authorised and regulated by the FCA.

Development and performance of the business during the financial year

As at 31 March 2023, the REIT had a Net Asset Value ("NAV") of £64,866,447 (2022: £66,011,515). During the year ended 31 March 2023, the REIT generated a comprehensive income of £356,309 (2022: £5,287,375).

During the year ended 31 March 2023, there were ordinary shares issued amounting to £429,419 (2022: £Nil) and no redeemable preference shares issued (2022: £Nil). There were dividends received totalling £2,156,940 for the year ended 31 March 2023 (2022: £1,824,212). Cash flow from operating activities was negative, however, this was covered by the dividend received from the Company and proceeds from the issue of ordinary shares.

The REIT paid interim dividends of £1,930,796 for the year under review (2022: £1,585,550). The Company intends to pay dividends quarterly subject to the level of distributable income and the requirements of being a REIT as well as the Companies Act 2006.

The REIT made an application for listing the Shares on TISE which was considered by the Listing and Membership Committee and subsequently admitted to trading at 08:00 on 30 March 2021.

Principal risks and uncertainties

The Directors have identified the following key risks and mitigating factors affecting the REIT:

Economic background

The year began with a sense of economic optimism following the loosening of the remaining pandemic restrictions. However, the Russian invasion of Ukraine in March 2022 and ongoing global economic headwinds around inflation in particular led to an easing in economic growth throughout the year. More recently, economic activity has softened, with GDP growth declining to 0.1% in the three months to March 2023, as cost of living pressures have impacted both consumer and business sentiment. March 2023 saw Retail Price Index ("RPI") at 13.5%, down from the high of 14.2% in October 2022. To try and bring inflation under control, the Bank of England implemented a series of interest rate hikes over the course of the year, with the base rate moving from historically low levels of 0.1% to 4.25% by March 2023. The base rate was increased further to 5.0% in June 2023.

As a result, house price growth slowed during the year, primarily due to the increase in the cost of living, tax rises and higher mortgage costs. The cost of financing for Shared Ownership occupiers may also reduce demand, and ability for occupiers to staircase. While more muted economic growth, higher interest rates and accelerated inflation has dampened demand somewhat and therefore the pace of house price growth has slowed; a strong labour market and the continual imbalance between supply and demand continues to underpin house prices.

M&G SHARED OWNERSHIP REIT PLC
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Strategic report (continued)

The Directors of the REIT have assessed the impact of the above situations at the reporting date, and have determined there is no immediate impact on the REIT's ability to diverge from carrying out its strategic plans, therefore, there is no risk of the REIT not operating in the manner intended. The Directors of the REIT continue to monitor the situation, and its impact on the financial position and ongoing operations of the REIT.

Changes in law or regulation

Current or future governments may take a different approach to the availability or regulation of Shared Ownership arrangements. There is no guarantee that the current legal and regulatory regime applicable to Shared Ownership assets will continue or will not change significantly in a manner which could adversely affect the ability of the Company to achieve its investment objective, whether because Shared Ownership assets are no longer available to the Company for investment, or become scarce, or because Shared Ownership assets cease to be affordable for their target occupiers. Any risk the Company will face in this regard will also impact the REIT. However, with the end of the "Help to Buy" Equity Scheme in 2023 makes any changes to the regulation around Shared Ownership unlikely.

Fall in property values

Shared Ownership assets are subject to normal market fluctuations, including decreases in value, the REIT owns a for-profit RP, the Company, however there is no guarantee that the Company investment will benefit from capital appreciation. Further in determining the value of the properties this is inherently subjective and valuers have to make assumptions which may prove to be inaccurate. This is especially the case in more volatile markets when transactional data does not exist. The Company has engaged Allsops LLP which is specialised in valuing the Company Shared Ownership assets based on RICS Valuation - Global Standards ("Red Book Global Standards"). It is noted any fall in property values is mitigated by the strong labour market and the continual imbalance between supply and demand which continues to underpin house prices.

Risk in occupier default

There is the risk that an occupier of a Shared Ownership asset fails to make rental payments to the Company or defaults on any mortgage used to purchase the share in the Shared Ownership property. Should the occupier default on any mortgage of a Shared Ownership property, the mortgage lender would have first recourse to the Shared Ownership property, including potentially selling the Shared Ownership property in order to recoup the sums outstanding to the lender. The Company would be subject to any such prior claim to repayment with a consequential potential loss of equity. Any loss of income from the Company will have an effect on the REIT's ability to distribute to the Partnership. However, this risk is mitigated with the quality of occupiers and their low risk profile.

Interest rate and inflation risks

Changes in interest rates and rates of inflation may adversely affect the REIT's investments. Changes in the general level of interest rates and inflation can affect the Company's profitability by affecting the spread between, amongst other things, the income on its assets and the expense of its liabilities, the value of its interest-earning assets and its ability to realise gains from the sale of assets should this be desirable. Changes in interest rates and rates of inflation may also affect the valuation of the Company's assets, and therefore the REIT's valuation of the investment.

Interest rates and rates of inflation are sensitive to many factors, including governmental, monetary and tax policies, domestic and international economic and political considerations, fiscal deficits, trade surpluses or deficits, regulatory requirements and other factors beyond the control of the Manager.

Further details on the impact of increases in interest rates and inflation have been provided in the 'Economic background' section on pages 5 to 6 and in Note 4 of the Financial Statements.

M&G SHARED OWNERSHIP REIT PLC
Annual Report and Financial Statements (Audited) 2023

Strategic report (continued)

Legal, tax and regulatory

The REIT group is subject to the REIT Regime meaning it is subject to a number of statutory conditions on an ongoing basis in order to maintain its status, if these conditions are breached this may lead to a charge to the REIT or loss of status. Further the REIT could also be subject to UK corporation tax on some or all of its property related rental income which would reduce the return available for investors.

If tax or the regulatory environment changes, no assurance can be given that future legislation, administrative rules, court decisions (published or unpublished) in the practice of any authority will not adversely affect the operation of the REIT or the REIT group as a whole.

Likely future developments in the business

The REIT has been set up to receive dividends from the Company and pay this out to the Partnership subject to the requirements of the REIT regime. This will remain to be the case in the foreseeable future with the dividend income stream correlated with the return of Shared Ownership Assets held by the Company. There is no intention for the REIT to directly undertake any real estate investments.

Position of the business at the end of the financial year

The REIT is in a healthy financial position as at 31 March 2023. It has no leverage (2022: Nil) and a cash balance of £665,906 (2022: £165,432).

The cash flow from dividend income exceeds operating costs and covers the working capital requirements. The REIT's investor, the Partnership, has managed to secure £234.39m (2022: £216.8m) of commitments from its investors of which £206.06m (2022: £153.9m) remains undrawn at the date of approval of these Financial Statements. On request from the AIFM of the Partnership these commitments can be utilised to acquire shares in the REIT and fund further investments in the Company.

The Directors have made an assessment of the REIT's ability to continue as a going concern and are satisfied that the REIT has the resources to continue in business for 12 months from the date of approval of the Financial Statements. Furthermore, the Directors are not aware of any material uncertainties that may cast significant doubt upon the REIT's ability to continue as a going concern. Therefore, the Financial Statements have been prepared on a going concern basis.

Statement on Section 172 (1) of the Companies Act 2006

Section 172 (1) of the Companies Act 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 REIT for the benefit of its members as whole, taking into account:

- (a) the likely consequences of any decision in the long term;
- (b) the need to foster the REIT's business relationships with suppliers, tenants and others;
- (c) the impact of the REIT's operations on the community and the environment;
- (d) the desirability of the REIT maintaining a reputation for high standards of business conduct; and
- (e) the need to act fairly as between members of the REIT.

In discharging the section 172 duties the Directors have regard to the factors set out above. It is also recognised that the matters considered as a Board can have unique characteristics. It can be required to have regard to additional factors which are relevant to the specific matter under consideration. There is an acknowledgement from the Board that the relative importance of each factor considered will vary depending on the decision being taken. Across all decisions, the Board are mindful of the REIT's purpose, strategic priorities and alignment with the M&G plc overarching culture, vision and values.

M&G SHARED OWNERSHIP REIT PLC
Annual Report and Financial Statements (Audited) 2023

Strategic report (continued)

During the year, information has been provided to enhance the understanding of the interests of the REIT. This information is distributed in a range of different formats including reports and presentation and board papers that affect the REIT and the Company. Decisions are made with regards to the benefits to be obtained for all stakeholders, both in the short, medium and long term. The REIT's key stakeholders are the Partnership and the Company. Day to day activities of the Company are managed by the appointed property manager which reports on any tenant/property issues ensuring they are dealt with promptly. The Company is an RP and has to adhere to the requirements to maintain status as set out by the Regulator of Social Housing.

The Directors of the Company inform the REIT board in regards to portfolio activity that may affect the REIT investments. The REIT is managed by the AIFM of the REIT group which has a wealth of experience managing M&G Real Estate funds and is regulated by the Financial Services Authority. Decisions made by the REIT board in part have been delegated to the AIFM, from which the Board is assured a wealth of experience exists to place reliance on. The AIFM regularly reports to the Board on the performance of the REIT.

The Directors of the REIT board have regular meetings to discuss any decisions that affect the REIT or impact on it as being a stakeholder in the Company or Partnership.

The REIT does not have any employees (2022: Nil).

The REIT is only exposed to environmental, governance and social issues via its investment, M&G UK Shared Ownership Limited. M&G Real Estate has a responsible property investment strategy which seeks to create and manage exceptional places that enrich the lives of people and communities to deliver long-term value for our investors, society and the environment. Our responsible property investment strategy has three focus areas: environmental excellence, wellbeing and occupier experience, and contribution to communities and society.

Environmental, Social and Governance

The REIT, Partnership and Company (together, the "Fund") has appointed a third-party social impact consultant, The Good Economy, to help the fund management team create a framework for articulating and measuring the Environmental, Social and Governance ("ESG") impact of the Fund's activities. The Directors of the REIT recognise the importance of ESG to broaden access to home ownership and ensuring first-rate and sustainable solutions for residents.

In doing so the Directors of the REIT continue to work with the Directors of the Company to ensure a responsible property investment strategy exists for its investments. At this time there is no expected direct impact on the operations of REIT resulting from ESG. The Directors of the REIT are however cognisant of the considerations on the investment properties held by the Company, and as such are kept abreast on the Companies ESG strategy. This includes targeting an Environmental Performance Certificate of "B+" for investment properties. The Directors of the REIT will continue to assess and support any investment decisions that are beneficial to this strategy and are informed on a continued basis by the AIFM of the REIT group.

Further ESG and value for money disclosures have been made in the annual report of M&G UK Shared Ownership Limited, as required by the Accounting Direction for Social Housing.

Approved by the Board of Directors of M&G Shared Ownership REIT plc.



Christopher Perkins
Date: 26 July 2023

M&G SHARED OWNERSHIP REIT PLC

Annual Report and Financial Statements (Audited) 2023

Directors' report

The Directors present their report together with the Financial Statements of the REIT for the year ended 31 March 2023.

Principal activity and business review

The demand for affordable homes and the end of "Help to Buy" Equity Scheme in 2023 makes Shared Ownership a viable option for new homeowners. The Directors believe that exposure to Shared Ownership via its wholly owned RP will be of continued interest to the investors of the Partnership. The Directors believe these investors will be interested in diversifying their portfolios to more alternative Real Estate, while at the same time receiving the benefits of being a prominent part of the ESG strategy.

Future developments

As at 31 March 2023, the portfolio comprised 19 schemes totalling 382 homes. All of the homes within the portfolio are occupied and income producing. The Company seeks to acquire Shared Ownership homes in desirable locations, typically close to centres of strong economic activity and good transport networks, for aspirational homeowners from a wide social demographic, in employment or with contracted incomes. Occupiers will acquire a share of a home with or without a traditional mortgage. The Company retains the remaining equity share and receives an inflation-linked rent from the shared owner.

The Company will acquire a mix of standing stock, forward purchase and forward funding development opportunities with large scale housebuilders and housing associations. As a RP, the Company will be able to access a wider market, acquiring homes from other RPs and directly from developers. When acquiring standing stock, we will be providing capital to housing associations to unencumber their balance sheets, allowing them to recycle capital back into the delivery of new homes, regenerating communities and creating new ones. In doing so, such organisations are able to deliver new homes across all tenures of social and affordable housing.

The Company seeks to broaden access to home ownership, ensuring first-rate and sustainable solutions for residents that cannot afford to buy on the open market, by delivering new homes. The Company has appointed the specialist social impact consultant, The Good Economy, to help create a framework for measuring the social impact of the Company's activities.

The Company is progressing several transactions, balancing exposure to investment purchases and development opportunities. Following a period of volatility, pricing in the shared ownership investment market is now providing opportunities at more attractive levels and the Company anticipates high levels of transaction activity across the remainder of 2023. As the Company continues to build a portfolio of standing stock and a stable base of income, it will begin to progress more forward-purchase and forward funding development opportunities to benefit from enhanced returns through first-tranche sales and to fulfill the objective to directly contribute to the delivery of additional, high quality and sustainable affordable homes.

The Partnership will invest capital into the REIT once commitments have been secured and drawdown notices sent to investors.

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Directors' report (continued)

Investment performance

The REIT generated a loss on investments of £1,614,321 (2022: gain on investments £3,635,823). This loss was largely due to the decrease in the value of investment properties held by the Company.

Directors

The Directors of the REIT who served during the year, and at the date of this report were as follows:

Chris Perkins

Mark Davie

Alexander Greaves

Political and charitable contributions

The REIT has made no political or charitable contributions during the year (2022: Nil).

Shares issues and redemptions

During the year ended 31 March 2023, there were ordinary shares issued amounting to £429,419 (2022: £Nil).

Dividends

The Directors will not be proposing a final dividend for the year ended 31 March 2023.

Going concern

The Directors have made an assessment of the REIT's ability to continue as a going concern and are satisfied that the REIT has adequate resources to continue in operational existence for the next 12 months following the Financial Statements date that is, 31 July 2024. Furthermore, the Directors are not aware of any material uncertainties that may cast significant doubt upon the REIT's ability to continue as a going concern. Therefore, the Financial Statements are prepared on the going concern basis. Detailed analysis is described in Note 2 in the Financial Statements.

Subsequent events

The Directors of the REIT have evaluated events occurring after the year end and up to 26 July 2023, which is the date of signing of the Directors' Report. Refer to Note 18 for further details.

Employees

The REIT has no employees (2022: Nil).

Directors' indemnity insurance

Qualifying third party indemnity provisions (as defined by section 234 of the Companies Act 2006) were accordingly in force during the year ended 31 March 2023 in relation to certain losses and liabilities which may occur in connection with their duties, power or office.

M&G SHARED OWNERSHIP REIT PLC
Annual Report and Financial Statements (Audited) 2023

Directors' report (continued)

Auditors and disclosure of information to auditors

The Independent Auditor, Ernst and Young LLP, have been appointed by the REIT for the year ended 31 March 2023. So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection to preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the REIT's auditor, each director has taken all the steps that they are obliged to take in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Pursuant to Section 489 of the Companies Act 2006, a resolution will be passed at the Annual General Meeting proposing the reappointment of Ernst & Young LLP as auditor.

Statement of Directors' responsibilities in respect of the Directors' report and the Financial Statements

The Directors are responsible for preparing the Directors' report and the Financial Statements in accordance with United Kingdom law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law they have elected to prepare the Financial Statements in accordance with UK adopted International Accounting Standards. 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 REIT and of the profit or loss of the REIT for that period.

In preparing these Financial Statements the Directors are required to:

- select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in UK adopted International Accounting Standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the group and company financial position and financial performance;
- in respect of the company Financial Statements, state whether UK adopted International Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is appropriate to presume that the company and/or the group will not continue in business.

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

Under applicable law and regulations, the Directors are also responsible for preparing a strategic report, directors' report, that comply with that law and those regulations.

On behalf of the Board of Directors



Christopher Perkins
Date: 26 July 2023

M&G SHARED OWNERSHIP REIT PLC*Annual Report and Financial Statements (Audited) 2023***Governance**

M&G Alternatives Investment Management Limited, the AIFM, retains responsibility for risk management of the REIT group which consists of the REIT and the Company. The AIFM has established a Risk Committee which is a sub-committee of the AIFM's board and oversees investment and operational risk management activities undertaken by M&G Group business units, including M&G Real Estate. At least quarterly, the Risk Committee receives reports from M&G Group risk management teams that consider investment (market and credit) risk, liquidity risk, regulatory limits, counterparty risk and operational risk.

In addition, the AIFM retains overall responsibility for the valuation of assets and calculation of the REIT NAV. However, it may delegate activities which contribute to ensuring that asset valuation and NAV calculations are independent and proper. The Fair Value Committee is a sub-committee of the AIFM's Risk Committee. The Fair Value Committee receives a report annually from the Valuation Committees of M&G Group business units, including M&G Real Estate.

The REIT has engaged Citco Custody (UK) Limited as its depository which is currently subject to a fee of £10,000 per annum based on Gross Asset Value.

Remuneration

In line with the requirements of the Alternative Investment Fund Managers Directive ("AIFMD"), the AIFM is subject to a remuneration policy which is consistent with the principles outlined in the European Securities and Markets Authority guidelines on sound remuneration policies under the AIFMD.

The remuneration policy is designed to ensure that any relevant conflicts of interest can be managed appropriately at all times and that the remuneration of employees is in line with the risk policies and objectives of the alternative investment funds ("AIFs") managed by the AIFM. Further details of the remuneration policy can be found here: <https://www.mandgplc.com/our-business/mandg-investments/mandg-investments-business-policies>. The remuneration policy and its implementation is reviewed on an annual basis, or more frequently where required, and is approved by the M&G plc Board Remuneration Committee. The most recent review found no fundamental issues with no material changes made to the policy.

The AIFM is required under the AIFMD to make quantitative disclosures of remuneration. These disclosures are made in line with M&G's interpretation of currently available guidance on quantitative remuneration disclosures. As market or regulatory guidance evolves, M&G may consider it appropriate to make changes to the way in which quantitative disclosures are calculated.

The 'Identified Staff' of the AIFM are those who could have a material impact on the risk profile of the AIFM or the AIFs it manages (including M&G Shared Ownership REIT plc) and generally includes senior management, risk takers and control functions. 'Identified Staff' typically provide both AIFMD and non-AIFMD related services and have a number of areas of responsibility. Therefore, only the portion of remuneration for those individuals' services which may be attributable to the AIFM is included in the remuneration figures disclosed. Accordingly the figures are not representative of any individual's actual remuneration. The information needed to provide a further breakdown of remuneration is not readily available and would not be relevant or reliable.

The amounts shown below reflect payments made in respect of the financial year 1 January 2022 to 31 December 2022.

	Fixed Remuneration £000	Variable Remuneration (incl. carried interest) £000	Total £000	Beneficiaries
Senior Management	67	186	253	12
Other Identified Staff	3,086	9,868	12,954	35

M&G SHARED OWNERSHIP REIT PLC
Annual Report and Financial Statements (Audited) 2023

Governance (continued)

Leverage

Clause 125.1 of the REIT Articles of Association states the total leverage cannot exceed 30% of NAV without a special resolution.

Clause 125.2 of the REIT Articles of Association provides that borrowing at all times should comply with Part 12 of the Corporation Tax Act 2010.

The AIFMR use two distinct definitions of leverage, both of which are calculated on a regular basis by the AIFM:

Under the gross method the leverage is calculated as the ratio between the REIT group's investment exposure (calculated by adding the absolute values of all portfolio positions, including the sum of the notional values of any derivative instruments used but excluding cash and cash equivalents), and the NAV; and the commitment method takes into account netting and hedging arrangements and is defined as the ratio between the REIT group's net investment exposure (not excluding cash and cash equivalents), and the NAV.

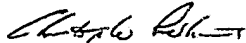
The calculated leverage under AIFMR is:

Gross Method 88% (2022: 93%)

Commitment Method 100% (2022: 100%)

The numbers above mean the REIT group had no leverage.

On behalf of the Board of Directors of the REIT



Christopher Perkins
Date: 26 July 2023

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF M&G SHARED OWNERSHIP REIT PLC

Opinion

We have audited the financial statements of M&G Shared Ownership REIT PLC (the "Company") for the year ended 31 March 2023 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 18, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards.

In our opinion, the financial statements:

- ▶ give a true and fair view of the Company's affairs as at 31 March 2023 and of its profit for the year then ended;
- ▶ have been properly prepared in accordance with UK adopted international accounting standards; and
- ▶ have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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 Company's ability to continue to adopt the going concern basis of accounting included

- Obtaining an understanding of the process followed by management to make its going concern assessment;
- Holding discussions with the Property and Asset Manager and those charged with governance to determine whether, in their opinion, there is any material uncertainty regarding the Company's ability to pay liabilities as they fall due and performed audit procedures on their liquidity assessment including the key assumptions in the cashflow forecast; and
- Assessing the appropriateness of the going concern disclosures by comparing the disclosures provided in the financial statements to management's documented going concern assessment and by testing the adequacy of disclosures provided against the requirements of the relevant financial reporting standards.

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 Company's ability to continue as a going concern for a period up to 31 July 2024 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. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Overview of our audit approach

Key audit matters	► Valuation of the Company's investments at fair value through profit or loss
Materiality	► Overall materiality of £1.3m which represents 2% of Net Asset Value (NAV).

An overview of the scope of our audit**Tailoring the scope**

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

Climate change

There has been increasing interest from stakeholders as to how climate change will impact M&G Shared Ownership REIT PLC. The Company has determined that there are no future impacts from climate change on its operations. This is explained on page 8 in the Strategic Report which form part of the "Other information," rather than the audited financial statements. Our procedures on these disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated.

Our audit effort in considering the impact of climate change on the financial statements was focused on evaluating management's assessment that there is no impact of climate risk, the adequacy of the Company's disclosures in the financial statements and the conclusion that no issues were identified that would impact the carrying values of investments or have any other impact on the financial statements as disclosed in Note 2 to the financial statements. We also challenged the Directors' considerations of climate change in their assessment of going concern and associated disclosures.

Key audit matters

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

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Valuation of the Company's equity investment at fair value through profit or loss may be materially misstated . (£64.0m)</p> <p><i>Refer to the Accounting policies (page 25-30); and Notes 4 and 5 of the Financial Statements</i></p> <p>The valuation of the Company's investment at fair value is driven by the NAV of the 100% held subsidiary. The risk is the real estate valuation, that represents 89% of the subsidiary's NAV, is valued based on inappropriate assumptions and not reflective of fair value.</p>	<p>We gained an understanding of the processes adopted by management for the valuation of the investments by performing our walkthrough procedures and evaluating the implementation and design effectiveness of controls.</p> <p>We evaluated management's valuation methodology applied to determine the appropriateness of the fair value of the Company's equity investment carried at fair value through profit or loss and of its presentation and disclosures the financial statements.</p> <p>We agreed the valuation of the investment at fair value through profit or loss to the NAV of the underlying subsidiary.</p> <p>As the NAV of the subsidiary is considered to be the primary determinant of the fair value of the equity investment held, we conducted audit procedures in respect of the main component of this NAV, specifically the underlying external property valuation with the assistance of our EY real estate valuation specialist.</p> <p>We understood and assessed the valuation bases (Existing Use Value for Social Housing (EUV-SH), the valuation model used (Discounted Cash Flow) and performed the following key audit procedures on the key inputs;</p> <ul style="list-style-type: none"> i. Agreed lease income to underlying agreements on a sample basis; ii. Examined the Retail price Index (RPI) issued to estimate rental growth and the House Price Inflation (HPI) which impacts the future stair casing receipts; iii. We compared the staircasing assumptions, applied by the external valuer appointed by management, to available market data and recent staircasing history within the portfolio; and 	<p>Based on our testing we are satisfied that the valuation of the Company's investment at fair value through profit or loss is not materially misstated.</p> <p>Based on the procedures performed, we have no material matters to report in respect of the valuation of the Company's investment at fair value through profit or loss.</p>

Risk	Our response to the risk	Key observations communicated to the Audit Committee
	iv. Recalculated the discount rates on the rental and staircasing revenue streams.	

Our application of materiality

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

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Company to be £1.3 million (2022: £1.3 million), which is 2% (2022: 2%) of Net Asset Value (NAV). We believe that NAV provides us with the most relevant performance measure for the stakeholders of the Company being the basis upon which investors receive quarterly reporting and pricing information.

Performance materiality

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

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 75% (2022: 75%) of our planning materiality, namely £973k (2022: £990k). We have set performance materiality at this percentage given that there is no history of material misstatements, the likelihood of misstatement in the future is deemed low, we have a strong understanding of the control environment and there were no changes in circumstances such as a change in accounting personnel or events out of the normal course of business..

Reporting threshold

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

We agreed with the Directors that we would report to them all uncorrected audit differences in excess of £65k (2022: £66k), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

Other information

The other information comprises the information included in the annual report set out on pages 2 to 13 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 this 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.


However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- ▶ We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are those that relate to the reporting framework, the UK adopted international accounting standards, the Companies Act 2006 and The International Stock Exchange Listing Rules.
- ▶ We understood how M&G Shared Ownership REIT plc is complying with those frameworks by enquiries of management and obtaining representations from those charged with governance. We corroborated our understanding by reviewing board meeting minutes and relevant policy and procedure manuals and identified no matters that contradicted the understanding obtained through our enquiries.
- ▶ We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by understanding the investment objectives of the Company, and therefore where reporting was considered susceptible to fraud. Where this risk was considered to be higher, we performed audit procedures in response to the identified fraud risk. These procedures included testing of specific accounting journal entries and focussed testing, including that referred to in the key audit matters section of this report. These procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- ▶ Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved enquiries of management for their awareness of any non-compliance with laws and regulations, completion of relevant audit work in respect of compliance matters including that relating to adherence to the disclosure provisions of the Companies Act 2006, The International Stock Exchange Listing Rules and related financial reporting requirements. We corroborated our enquiries through our reading board meeting minutes.

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

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:

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Vishal Soorkia, FCA (Senior statutory auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
Guernsey, Channel Islands
Date: 26 July 2023

M&G SHARED OWNERSHIP REIT PLC
Annual Report and Financial Statements (Audited) 2023

Statement of Comprehensive Income
For the year ended 31 March 2023

	Notes	Year ended 31 March 2023 £	Year ended 31 March 2022 £
Income			
Investment income	10	2,156,940	1,824,212
Net unrealised (loss)/gain from fair value adjustments on investments	2.2, 4, 5	(1,614,321)	3,635,823
Total net income		542,619	5,460,035
Expenses			
Depository fee		(12,000)	(12,077)
Other operating expenses	12	(174,310)	(160,583)
Total operating expenses	2.9	(186,310)	(172,660)
Operating profit		356,309	5,287,375
Total comprehensive income for the year		356,309	5,287,375
Earnings per share (basic and diluted)	14	0.01	0.09

All items for the year relate to continuing operations.

The accompanying notes on pages 24-42 are an integral part of these Financial Statements.

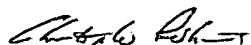
M&G SHARED OWNERSHIP REIT PLC
Annual Report and Financial Statements (Audited) 2023

Statement of Financial Position

As at 31 March 2023

	Notes	As at 31 March 2023 £	As at 31 March 2022 £
Assets			
Non-current assets			
Investments at fair value through profit or loss	2.2, 4, 5	64,373,571	65,987,892
		<u>64,373,571</u>	<u>65,987,892</u>
Current assets			
Prepayments		4,500	–
Cash and cash equivalents	2.3, 6	665,906	165,432
		<u>670,406</u>	<u>165,432</u>
Total assets		<u>65,043,977</u>	<u>66,153,324</u>
Equity			
Share capital	2.4, 7	623,368	619,355
Share premium	2.4, 7	61,741,551	61,316,145
Retained earnings	2.6, 15	2,501,528	4,076,015
Total equity		<u>64,866,447</u>	<u>66,011,515</u>
Liabilities			
Current liabilities			
Payable to related parties	4, 15	25,152	17,715
Accrued expenses and other current liabilities	4, 11	152,378	124,094
Total liabilities		<u>177,530</u>	<u>141,809</u>
Total equity and liabilities		<u>65,043,977</u>	<u>66,153,324</u>

These Financial Statements were approved by the Board of Directors and authorised for issue on 26 July 2023 and are signed on behalf of the board by:



Christopher Perkins
 Director

The accompanying notes on pages 24–42 are an integral part of these Financial Statements.

M&G SHARED OWNERSHIP REIT PLC
Annual Report and Financial Statements (Audited) 2023

Statement of Changes in Equity
For the year ended 31 March 2023

	Share capital £	Share premium £	Retained earnings £	Total £
As at 31 March 2021	619,355	61,316,145	374,190	62,309,690
Total comprehensive income for the year	–	–	5,287,375	5,287,375
Dividends (refer to Note 15)	–	–	(1,585,550)	(1,585,550)
As at 31 March 2022	619,355	61,316,145	4,076,015	66,011,515
Issue of ordinary shares	4,013	425,406	–	429,419
Total comprehensive income for the year	–	–	356,309	356,309
Dividends (refer to Note 15)	–	–	(1,930,796)	(1,930,796)
As at 31 March 2023	623,368	61,741,551	2,501,528	64,866,447

The accompanying notes on pages 24-42 are an integral part of these Financial Statements.

M&G SHARED OWNERSHIP REIT PLC
Annual Report and Financial Statements (Audited) 2023

Statement of Cash Flows

For the year ended 31 March 2023

	Notes	Year ended 31 March 2023 £	Year ended 31 March 2022 £
Operating activities			
Total comprehensive income for the year		356,309	5,287,375
<i>Adjustments for non-cash items and non-operating activities</i>			
Net unrealised loss/(gain) from fair value adjustments on investments	5	1,614,321	(3,635,823)
Investment income		(2,156,940)	(1,824,212)
Net cash flows before change in working capital		(186,310)	(172,660)
Increase in prepayments		(4,500)	–
Increase in payable to related parties	15	7,437	17,713
Increase in accrued expenses and other current liabilities	11	28,284	36,216
Net cash used in operating activities		(155,089)	(118,731)
Investing activities			
Dividends received		2,156,940	1,824,212
Net cash provided by investing activities		2,156,940	1,824,212
Financing activities			
Proceeds from issue of ordinary shares	7	429,419	–
Payments on redeemable preference shares		–	(12,500)
Dividends paid		(1,930,796)	(1,585,550)
Net cash used in financing activities		(1,501,377)	(1,598,050)
Net increase in cash and cash equivalents		500,474	107,431
Cash and cash equivalents at the beginning of the year		165,432	58,001
Cash and cash equivalents at the end of the year	6	665,906	165,432

The accompanying notes on pages 24-42 are an integral part of these Financial Statements.

M&G SHARED OWNERSHIP REIT PLC
Annual Report and Financial Statements (Audited) 2023

Notes to the Financial Statements
For the year ended 31 March 2023

1. General information

The M&G Shared Ownership REIT plc, (the “REIT”), is a closed-ended company incorporated with limited liability under the laws of England and Wales on 12 May 2020. It is a public limited company listed on TISE. The REIT is the sole shareholder in M&G UK Shared Ownership Limited (the “Company”) which is the company that holds the Shared Ownership assets. The structure as a whole (comprising the M&G Shared Ownership LP (the “Partnership”), the REIT and the Company) is referred to as the “Shared Ownership Fund”. The registered office of the REIT is 10 Fenchurch Avenue, London, United Kingdom, EC3M 5AG. The REIT’s registration number is 12596933.

The REIT is an Alternative Investment Fund (“AIF”) for the purposes of FSMA and subordinate legislation made under FSMA, including the Alternative Investment Fund Managers Regulations 2013, as amended. The Manager is the alternative investment fund manager of the REIT. The Manager is authorised and regulated in the UK by the FCA with permission to manage unauthorised AIFs.

These Financial Statements have been authorised for issue by the Board of Directors (the “Directors”) on 26 July 2023.

2. Basis of preparation

The Financial Statements have been prepared on a historical cost basis, except for investments which are measured at fair value.

The Financial Statements are presented in Pounds Sterling (“£”) except where otherwise indicated.

In preparing the Financial Statements, the REIT has considered the impact of climate change taking into account the relevant disclosures in the Directors’ Report and in the Strategic Report under Environmental, Social and Governance. There has been no material impact identified on reporting judgements and estimates of the REIT. In particular, the Directors considered the impact of climate change in respect of the going concern to 31 July 2024 along with the valuation of assets held. Whilst there is currently no short or medium term impact expected from climate change, the Directors are aware of the ever changing risks attached to climate change and will regularly assess these risks against judgements and estimates made in preparation of the REIT’s Financial Statements.

Statement of compliance

The Financial Statements of the REIT have been prepared in accordance with UK adopted International Accounting Standards (“IAS”).

Going concern

The Directors have a reasonable expectation that the REIT will generate adequate investment income to continue its operations for the next 12 months following the Financial Statements date that is, 31 July 2024. The key method for assessing going concern is through the business planning and risk monitoring processes which considers the REIT’s future commitments, financial position, performance and cash flows. These processes consider the commitments required to meet the Company’s investment activities, together with factors likely to affect the REIT’s future development, performance and position, and key risks in the current economic climate.

On 31 March 2023, the REIT had a NAV of £64,866,447 (2022: £66,011,515). For the year ended 31 March 2023, the REIT generated comprehensive income of £356,309 (2022: £5,287,375). This profit is mostly attributable to the dividends received from the Company of £2,156,940 (2022: £3,635,823). Cash held by the REIT as at 31 March 2023 was £665,906 (2022: £165,432) which exceeds current liabilities of £177,530 (2022: £141,809) for costs primarily related to tax, audit and administration. The REIT received dividends of £2,156,940 (2022: £1,824,212) and paid dividends of £1,930,796 (2022: £1,585,550). It is expected that the REIT continue to receive dividends quarterly but will be retaining cash buffers to ensure it can meet REIT requirements. The REIT received a dividend of £551,555 on 22 May 2023 from the Company and subsequently distributed a dividend of £542,784 to the Partnership.

M&G SHARED OWNERSHIP REIT PLC
Annual Report and Financial Statements (Audited) 2023

Notes to the Financial Statements (continued)

For the year ended 31 March 2023

2. Basis of preparation (continued)

Going concern (continued)

The REIT may take on leverage up to 30% of NAV and bridge finance to meet liquidity requirements, although it has no intention to do so. The assessment of the cash-flow forecast shows that there will be sufficient dividends from the Company to meet working capital requirements.

The Russian invasion of Ukraine has contributed to significant inflationary pressures in global economies, driving sharp increases in energy prices and the cost of living. March 2023 saw RPI at 13.5%, down from the high of 14.2% in October 2022. To try and bring inflation under control, the Bank of England implemented a series of interest rate hikes over the course of the year, with the base rate moving from historically low levels of 0.1% to 4.25% by March 2023. The base rate was increased further to 5.0% in June 2023. This has adversely affected the economy and the pace of house price growth. However, a strong labour market and the continual imbalance between supply and demand underpin house prices in challenging market conditions.

The liquidity risk of defaulted investors is mitigated by the profile of investors committed into the Partnership being institutional. In addition, committed investors are required to satisfy a Spending Commitment and a Committed Investor who fails to make payment by the expiry of the notice period will be subject to sanctions in respect of such default.

The REIT's earnings, distributable cash flows and NAV could be adversely affected if the Company's shared owners are unable to meet their lease obligations due to the continued economic uncertainty. This risk is mitigated by a significantly diverse tenant base, with the Company's portfolio being made up of 382 (2022: 403) homes under Shared Ownership leases where the shared owners share in the home's equity.

The Directors, having considered the objectives and available resources along with the projected cash flows of the REIT, and are satisfied that the REIT has adequate resources to continue in operational existence for at least the next 12 months following the Financial Statements date. Accordingly, the REIT has continued to adopt the going concern basis in preparing these Financial Statements.

2.1 Summary of significant accounting policies

New and amended standards and interpretations issued and adopted by the REIT

The accounting policies adopted are consistent with those of the previous financial period, except for the following new and amended UK adopted International Accounting Standards ("IAS") and International Financial Reporting Standards Interpretations Committee ("IFRS IC") effective as of 1 April 2022, these exclude standards which, in the opinion of the Directors, are not relevant to the REIT.

IFRS 9, Financial Instruments: Fees in the '10 per cent' Test for Derecognition of Financial Liabilities

The amendment clarifies the fees that the REIT includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

The REIT must apply the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the REIT first applies the amendment.

The amendment is effective for annual periods beginning on or after 1 April 2022. Earlier application is permitted.

The amendment does not have a significant impact on the REIT's Financial Statements.

M&G SHARED OWNERSHIP REIT PLC
Annual Report and Financial Statements (Audited) 2023

Notes to the Financial Statements (continued)
For the year ended 31 March 2023

2. Basis of preparation (continued)

2.1 Summary of significant accounting policies (continued)

Amendment to IFRS 3: Reference to the Conceptual Framework

In May 2020, the International Accounting Standards Board (“IASB”) issued Amendments to International Financial Reporting Standards (“IFRS”) 3 Business Combinations – Reference to the Conceptual Framework. The amendments are intended to replace a reference to a previous version of the IASB’s Conceptual Framework with a reference to the current version issued in March 2018 without significantly changing its requirements.

The amendments add an exception to the recognition principle of IFRS 3 to avoid the issue of potential ‘day 2’ gains or losses arising for liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRS IC 21 Levies, if incurred separately. The exception requires the REIT to apply the criteria in IAS 37 or IFRS IC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date.

At the same time, the amendments add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

The amendments are effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment does not have a significant impact on the REIT’s Financial Statements.

Amendments to IAS 37: Onerous contracts – Costs of Fulfilling a Contract

The amendments apply a directly related cost approach. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments must be applied prospectively to contracts for which the REIT has not yet fulfilled all of its obligations at the beginning of the annual reporting period in which it first applies the amendments. These amendments are effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted and must be disclosed.

These amendments do not have a significant impact on the REIT’s Financial Statements.

New and amended standards and interpretations issued but not effective as at the date of issuance of the REIT’s Financial Statements

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the REIT’s Financial Statements are disclosed below, except for those standards which, in the opinion of the Directors, are not relevant to the REIT. The REIT intends to adopt these standards, if applicable, when they become effective. The Directors’ assessment of the impact of these new standards and interpretations is set out below:

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 Presentation of Financial Statements to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right; and
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

M&G SHARED OWNERSHIP REIT PLC
Annual Report and Financial Statements (Audited) 2023

Notes to the Financial Statements (continued)

For the year ended 31 March 2023

2. Basis of preparation (continued)

2.1 Summary of significant accounting policies (continued)

Amendments to IAS 1: Classification of Liabilities as Current or Non-current (continued)

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively.

The amendment is not expected to have a significant impact on the REIT's Financial Statements.

Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of Accounting Policies

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures. The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The REIT is currently assessing the impact of the amendments to determine the impact they will have on the REIT's accounting policy disclosures.

Amendments to IAS 8 – Definition of Accounting Estimates

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a new definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively.

The amendments are not expected to have a material impact on the REIT's Financial Statements.

No other new standards, amendments to standards, or interpretations issued but not effective for the financial year beginning on 1 April 2022 are expected by management to have a material impact on the REIT's Financial Statements.

2.2 Financial assets and liabilities

Recognition and measurement of financial assets

Initial recognition and measurement

Financial assets within the scope of IFRS 9 are classified at initial recognition, and subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the REIT's business model for managing them. The REIT initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction cost.

M&G SHARED OWNERSHIP REIT PLC
Annual Report and Financial Statements (Audited) 2023

Notes to the Financial Statements (continued)

For the year ended 31 March 2023

2. Basis of preparation (continued)

2.2 Financial assets and liabilities (continued)

Subsequent measurement

Financial assets at amortised cost

The REIT measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows, that are solely payments of principal and interest, on the principal amount outstanding.

The REIT's financial assets at amortised cost includes dividend receivable and trade and other debtors. These are non-derivative financial instruments with fixed or determinable payments and are therefore subsequently measured at amortised cost and subject to impairment. IFRS 9 requires the REIT to record expected credit losses ("ECLs") on all loans and trade receivables not held at fair value through profit or loss. The REIT only holds receivables with no financing component and, as such, has chosen to apply the simplified approach for ECLs under IFRS 9 to all its trade receivables. Therefore, the REIT does not track changes in credit risk, but instead, recognises a loss allowance based on lifetime ECLs at each reporting date.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets at fair value through profit or loss are carried in the Statement of Financial Position at fair value, with changes in fair value recognised in the Statement of Comprehensive Income.

Investments in subsidiaries

In accordance with the exception under IFRS 10, the REIT does not consolidate subsidiaries in the Financial Statements. Investments in subsidiaries are accounted for at fair value through profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the REIT retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the REIT has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Recognition and measurement of financial liabilities

The REIT's financial liabilities include trade and other payables and amounts due to redeemable preference shareholders. These are initially recognised at fair value and subsequently measured at amortised cost.

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Notes to the Financial Statements (continued)

For the year ended 31 March 2023

2. Basis of preparation (continued)

2.2 Financial assets and liabilities (continued)

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same counterparty on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the Statement of Comprehensive Income.

2.3 Cash and cash equivalents

Cash includes cash on hand and cash with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

2.4 Share capital

Ordinary share capital is classified as equity and is stated at nominal value of cash received.

Share premium is classified as equity and is stated as the cash received which exceeds the nominal value of the shares.

2.5 Preference shares

Preference shares which will be issued and fully or partially paid up will be classified as liabilities as holders are entitled to a cumulative fixed fee of 0.01% (2022: 0.01%) of the nominal amount of the shares per annum and do not confer voting rights as is the case with Ordinary share capital. The shares can be redeemed by the REIT at any point in time and no later than 12 months from the date of the Company's admission to TISE. There were no preference shares in issue as at 31 March 2023 (2022: Nil).

2.6 Dividends

Dividends to be paid to Shareholders are recognised in the Financial Statements as a liability in the period in which the Directors approve the dividends and are carried at nominal value.

2.7 Provisions and contingencies

A provision is recognised when, and only when, the REIT has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the provision will reflect the present value of the expenditure expected to be required to settle the obligation.

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the REIT has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Contingencies are not recognised in the Financial Statements. They are disclosed in the notes unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the Financial Statements but disclosed when an inflow of economic benefit is probable.

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Notes to the Financial Statements (continued)

For the year ended 31 March 2023

2. Basis of preparation (continued)

2.8 Investment income

Revenue from investments is recognised in the Statement of Comprehensive Income when the REIT becomes entitled to it, which is on declaration of the dividend.

2.9 Expense recognition

Expenses are accounted for on an accruals basis.

2.10 Taxation

Current tax is the expected tax payable on the taxable income for the year, using tax rates and tax laws that have been enacted or substantially enacted at the end of the reporting period. Current tax, to the extent unpaid, is recognised as a liability.

No tax is currently payable by the REIT as at 31 March 2023 (2022: Nil).

The M&G Shared Ownership REIT plc is part of a UK REIT group from 1 April 2021 that is subject to UK corporation tax only to the extent that income and gains do not derive from its property rental business. The REIT was VAT registered on 1 October 2022. Refer to Note 9.

2.11 Segmental analysis

The REIT consists of one operating segment and operates in the country of incorporation. It is wholly invested in the Company as such, there is no other segmental information to disclose.

3. Significant accounting judgements, estimates and assumptions

The preparation of Financial Statements in conformity with IFRS requires the Directors to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, revenues and expenses. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or the liability affected in future periods.

3.1 Estimates and assumptions

The key assumptions concerning future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The REIT based its assumptions and estimates on parameters available when the Financial Statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the REIT. Such changes are reflected in the assumptions when they occur.

Valuation of investments at fair value through profit or loss

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. For investments in real estate companies where there is no active market, fair value is determined based on latest available NAV as reported by the Administrator or Manager of the relevant investment and in accordance with IFRS 13. The significant methods and assumptions used in estimating the fair value of investments are set out in Note 4.

The investment holding of the REIT in the Company has been valued using the NAV.

M&G SHARED OWNERSHIP REIT PLC
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Notes to the Financial Statements (continued)

For the year ended 31 March 2023

3. Significant accounting judgements, estimates and assumptions (continued)

3.2. Judgements

In the process of applying the REIT's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements.

Investment entity

The REIT invests exclusively in the Company. As the REIT is the sole shareholder of the Company, the Directors have performed an assessment to determine whether or not the REIT has control over this investment and as such whether it should consolidate this investment under the requirements of IFRS. The significant methods and assumptions used in estimating the fair value of investments are set out in Note 4.

The REIT owns 100% of the subsidiary. An exemption to consolidation has been adopted in accordance with IFRS 10 Consolidated Financial Statements as the REIT is regarded to be an investment entity. An Investment entity is an entity that meets the following three criteria:

- Obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;
- Commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both (business purpose condition); and
- Measures and evaluates the performance of substantially all its investments on a fair value basis (fair value condition).

While an investment entity is required to meet the above three criteria, it is also necessary to consider the following characteristics:

- It has more than one investment on a look through basis;
- It has more than one investor;
- It has investors not related; and
- Its ownership interests are in the form of equity.

The REIT has indirect exposure to more than one investment property asset held at the underlying Company level (looking through the group as a whole).

The REIT measures and evaluates its investment in the Company at fair value, being the NAV of the Company. The Company values its own investment properties at fair value in accordance with the Statement of Recommended Practice, refer to accounting policy in Note 2.2. All property assets are valued on a quarterly basis and NAV reported on fair value basis for unit redemption purposes at the Partnership level.

The REIT is 100% owned by the Partnership. However indirectly via the Partnership there are numerous investors. As a listed REIT the shares can be traded through a TISE market maker.

One of the investors of the Partnership is owned by M&G plc with several ultimate shareholders.

The intention of the Partnership is to collect the distributions from the underlying Company which will consist of a combination of returns generated from the collection of income from the proportional ownership in the underlying properties held by the Company and any distributions arising following the staircasing or an outright sale on the underlying property portfolio to the REIT. As such the REIT exit could be achieved either from the accumulation of the distribution to the point where no further assets are held by the Company or if the Company reinvests the proceeds of the sale, then the REIT could exit through the sale of all or part of its equity interest in the Company.

The Directors of the REIT believe that the criteria of an investment entity within IFRS 10 has been met and that the investment in the subsidiary was measured at fair value through profit or loss rather than being consolidated.

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Notes to the Financial Statements (continued)
For the year ended 31 March 2023

3. Significant accounting judgements, estimates and assumptions (continued)

3.2. Judgements (continued)

Taxes

The M&G Shared Ownership REIT plc is part of a UK REIT group from 1 April 2021 that is subject to UK corporation tax only to the extent that income and gains do not derive from its property rental business. To the extent that income derives from its property rental business, the UK REIT group must make an annual PID to maintain its REIT status. Any gain derived from the property rental business that is distributed equally qualifies as a PID. A PID is subject to UK withholding tax at a current rate of 20% unless the recipient of such a PID is exempt from such a withholding. The REIT must ensure that 90% of its PID is distributed to shareholders within specified time limits. The Directors are of the view that all REIT compliance tests have currently been met and it is the intention to remain as a REIT in the foreseeable future. Any tax withheld is payable to HM Revenue and Customs.

The REIT has no tax losses carried forward, therefore no deferred tax assets as at 31 March 2023. Further details on taxes are disclosed in Note 9.

4. Financial risk management

Objective and policies

Financial instruments comprise financial assets and financial liabilities. The REIT's principal financial assets excluding investments at fair value through profit or loss, comprise of cash and cash equivalents and trade and other debtors. The REIT's financial liabilities consist of a payable to related parties and accrued expenses and other current liabilities. The carrying values of these financial instruments approximate their fair value.

The REIT's business activities expose it to market risk, credit risk, interest rate risk and liquidity risk. All relevant risk exposures are reported to the Directors as appropriate. The Directors review and agree policies for managing risks. The risk management policies employed by the REIT to manage these risks are discussed below.

Market risks related to investments at fair value

The Company is exposed to its real estate valuation risk. The direct exposure of the REIT means that any changes in the valuation of the Real Estate assets held by the Company will impact the investment at fair value and ultimately the REIT NAV.

Real estate values of the Company's portfolio can be affected by a number of factors including changes to global or local economic conditions, local market conditions, the financial conditions of tenants, the availability of debt financing, changes in interest rates, real estate tax rates and other operational expenses, environmental laws and regulations, planning laws and other governmental legislation, energy prices, the relative attractiveness of real estate types or locations and other factors which are beyond the control of the Company. In addition, real estate is subject to long-term cyclical trends that give rise to significant volatility in values.

All properties in the Company's portfolio are residential properties which are structured as Shared Ownership units. No concentration risk arises as the rental income received by the Company is spread across a significant number of different tenants, with no single tenant making up a significant amount of rent.

The value of the real estate assets is determined by the opinion of the Company's Property Valuers (the "Valuers"), Allsop LLP, and is therefore subjective. The Valuers have acquired significant experience in the real estate segments targeted by the Company. Valuation methodologies applied are outlined below.

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Notes to the Financial Statements (continued)

For the year ended 31 March 2023

4. Financial risk management (continued)

Valuation methodologies

Valuations of investment properties in the Company is based on the existing use value for social housing ("EUV-SH"). EUV-SH is an opinion of the best price at which the sale of an interest in a property would be completed unconditionally for a cash consideration on the valuation date, assuming:

- a willing seller;
- that prior to the valuation date there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest for the agreement of the price and terms and for the completion of the sale;
- that the state of the market, level of values and other circumstances were on any earlier assumed date of exchange of contracts, the same as on the date of valuation;
- that no account is taken of any additional bid by a prospective purchaser with a special interest;
- that both parties to the transaction had acted knowledgeably, prudently and without compulsion;
- that the property will continue to be let by a body pursuant to delivery of a service for the existing use;
- that at the valuation date any regulatory body in applying its criteria for approval would not unreasonably fetter the vendor's ability to dispose of a property to organisations intending to manage their housing stock in accordance with that regulatory body's requirements;
- that properties temporarily vacant pending re-letting should be valued, if there is a letting demand, on the basis that the prospective purchaser intends to re-let them, rather than with vacant possession; and
- that any subsequent sale would be subject to all the same assumptions above.

EUV-SH is similar to market value, but with additional assumptions reflecting the continued use of the property for social housing, in this case it considers a discounted cash flow based on rents and proceeds from affordable housing for the Shared Ownership units.

Discounted Cash Flow ("DCF") analysis

DCF is a financial modelling technique based on explicit assumptions regarding the prospective cash flow to a property. DCF analysis involves the projection of a series of periodic cash flows either to an operating property, a development property, or a business. To this projected cash flow series, an appropriate, market-derived discount rate is applied to establish an indication of the present value of the income stream associated with the property or business. In the case of real estate properties, periodic cash flow is typically estimated as gross income less vacancy and collection losses and less operating expenses/outgoings. The series of periodic net operating incomes, along with an estimate of the reversion/terminal value, anticipated at the end of the projection period, is then discounted. The most widely used applications of DCF analysis are the internal rate of return and net present value.

As with all other components of DCF analysis, the discount rate should also reflect market data, i.e., other market derived discount rates. Discount rates should be selected from comparable properties or businesses in the market. In order for these properties to be comparable, the revenue, expenses, risk, inflation, real rates of return, and income projections for the properties must be similar to those of the subject property. Present value calculations of cash flows are most often calculated using appropriate discount rates for each class of cash flows. A reversion/terminal value is capitalised at a terminal capitalisation rate, or reversion yield, and discounted to present value at an appropriate discount rate. In many instances, a single discount rate is used for all cash flows.

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Notes to the Financial Statements (continued)

For the year ended 31 March 2023

4. Financial risk management (continued)

Credit risk

The REIT's earnings, distributable cash flow and NAV could be adversely affected if the Company is unable to distribute as a result of Shared Owners unable to meet their lease obligations.

To ensure that Shared Owners continue to be able to meet their credit terms, the financial viability of tenants is reviewed regularly.

As at 31 March 2023, the REIT did not have any dividend receivable (2022: Nil). As such, the REIT had a limited credit risk in relation to its current assets.

With respect to credit risk arising from other financial assets of the REIT, which comprise cash and cash equivalents and trade and other debtors, the REIT's exposure to credit risk arises from default of the counterparty, with the maximum exposure equal to the carrying amount of these instruments. In calculating the loss allowance, a provision matrix has been used based on historical observed loss rates over the expected life of the receivables adjusted for forward-looking estimates.

At the reporting date, there are no past due debts. The REIT has calculated no material ECLs to be applied to its financial assets.

Cash balances are only held with financial institutions with a high credit rating. As at 31 March 2023, all cash balances were held with National Westminster Bank plc, which is rated A+ (2022: A) by Standard and Poor's. Given that the cash balance is also approximately 1% of the total NAV the credit exposure is not deemed to be significant. The Directors have controls in place to monitor the amount of credit exposure to any financial institution.

The table below analyses the maturity of the REIT's financial assets based on when they are due to be recovered as at the date of the Statement of Financial Position.

					As at 31 March 2023
	< 1 month	1 to 3 months	3 to 12 months	>12 months	Total
	£	£	£	£	£
Assets					
Investments at fair value through profit or loss	–	–	–	64,373,571	64,373,571
Cash and cash equivalents	665,906	–	–	–	665,906
Total	665,906	–	–	64,373,571	65,039,477
					As at 31 March 2022
	< 1 month	1 to 3 months	3 to 12 months	>12 months	Total
	£	£	£	£	£
Assets					
Investments at fair value through profit or loss	–	–	–	65,987,892	65,987,892
Cash and cash equivalents	165,432	–	–	–	165,432
Total	165,432	–	–	65,987,892	66,153,324

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Notes to the Financial Statements (continued)

For the year ended 31 March 2023

4. Financial risk management (continued)

Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The REIT may be exposed to the risk of changes in market interest rates through its investments in the Company. Changes in interest rate and inflation can affect the Company's profitability by affecting the spread between, among other things, the income on its assets and the expense of its liabilities, the value of its interest-earning assets and its ability to realise gains from the sale of assets should be desirable. Changes in interest rates and rates of inflation may also affect the valuation of the Company's assets and therefore the REIT's valuation of the investment.

As at 31 March 2023 and 31 March 2022, the REIT was not exposed to any significant extent to interest rate fluctuations.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents. The REIT's liquidity can be impacted by unexpected or high level of redemptions by the Partnership which would require cancellation of shares. Such events could occur following unexpected or high level redemption requests from the Partnership's Unitholders. The risk is managed at the REIT by regularly reviewing cash flow forecasts which considers the capital needs of the Partnership and the Company, as well as the working capital requirements of the REIT. The REIT is dependent on dividends from the Company therefore it must ensure it keeps sufficient cash buffers in place.

The table below analyses the REIT's financial liabilities into relevant maturity groupings based on the remaining period at the date of the Statement of Financial Position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

					As at 31 March 2023
	< 1 month	1 to 3 months	3 to 12 months	>12 months	Total
	£	£	£	£	£
Liabilities					
Payable to related parties	—	25,152	—	—	25,152
Accrued expenses and other current liabilities	—	152,378	—	—	152,378
Total	—	177,530	—	—	177,530
					As at 31 March 2022
	< 1 month	1 to 3 months	3 to 12 months	>12 months	Total
	£	£	£	£	£
Liabilities					
Payable to related parties	—	17,715	—	—	17,715
Accrued expenses and other current liabilities	—	124,094	—	—	124,094
Total	—	141,809	—	—	141,809

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Notes to the Financial Statements (continued)

For the year ended 31 March 2023

4. Financial risk management (continued)

Capital risk management

The Directors consider that the REIT's capital consists of ordinary shares attributable to Shareholders. The AIFM manages the REIT capital to enable the REIT to continue as a going concern and meet its liabilities as they fall due.

Fair value hierarchy

All assets and liabilities are measured in the Statement of Financial Position at fair value and are required to be disclosed by level of the following fair value measurement hierarchy:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The following table analyses within the fair value hierarchy the REIT's financial assets and liabilities measured at fair value as at 31 March 2023 and 31 March 2022.

				As at 31 March 2023
	Level 1	Level 2	Level 3	Total
	£	£	£	£
Assets measured at fair value				
Financial assets at fair value through profit or loss	–	–	64,373,571	64,373,571
Total	–	–	64,373,571	64,373,571
				As at 31 March 2022
	Level 1	Level 2	Level 3	Total
	£	£	£	£
Assets measured at fair value				
Financial assets at fair value through profit or loss	–	–	65,987,892	65,987,892
Total	–	–	65,987,892	65,987,892

The investment in the Company is a Level 3 investment because the investment is in the form of ordinary shares which are not freely traded or redeemable. The NAV of the Company is considered to be the key unobservable input in the REIT's valuation.

A quantitative assessment of the impact of a change in the unobservable inputs for both the Shared Ownership properties held by the Company valued in accordance with EUV-SH and the impact of these changes on the REIT NAV is shown below:

The current discount rates used in determining the Company real estate valuation as at 31 March 2023 is 5.00% (2022: 4.50%) for rent receipts and 7.00% (2022: 6.50%) for capital receipts. Staircasing of 2.00% per annum has also been assumed for a hold period of 30 years.

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Notes to the Financial Statements (continued)

For the year ended 31 March 2023

4. Financial risk management (continued)

Fair value hierarchy (continued)

Estimates of RPI ranges from 2.50% to 7.00% (2022: 2.50% to 5.50%). Estimates for the movements in the House Price Index ranges from -5.00% to 2.75% (2022: 1.00% to 2.75%).

	Investment property £	Investment at fair value £	Impact on REIT NAV £
As at 31 March 2023	57,330,000	64,373,571	64,866,447
Improved Discount Rates (-50bps Rent & Capital)	61,470,000	68,513,571	69,006,447
Expanded Discount Rates (+50bps Rent & Capital)	53,590,000	60,633,571	61,126,447
Improved staircasing (3%) pa	50,430,000	57,473,571	57,966,447
Reduced staircasing (1%) pa	60,910,000	67,953,571	68,446,447
Improved HPI* (+1% to assumed)	62,030,000	69,073,571	69,566,447
Impaired HPI* (-1% to assumed)	53,540,000	60,583,571	61,076,447
	Investment property £	Investment at fair value £	Impact on REIT NAV £
As at 31 March 2022	61,190,000	65,987,892	66,011,515
Improved Discount Rates (-50bps Rent & Capital)	66,320,000	71,117,892	71,141,515
Expanded Discount Rates (+50bps Rent & Capital)	57,640,000	62,437,892	62,461,515
Improved staircasing (3%) pa	53,150,000	57,947,892	57,971,515
Reduced staircasing (1%) pa	66,560,000	71,357,892	71,381,515
Improved HPI* (+1% to assumed)	67,050,000	71,847,892	71,871,515
Impaired HPI* (-1% to assumed)	57,490,000	62,287,892	62,311,515

* HPI stands for House Price Index calculated by the Office for National Statistics ("ONS").

5. Investments at fair value through profit or loss

	As at 31 March 2023 £	As at 31 March 2022 £
Historic cost		
At the beginning of the year	61,890,001	61,890,001
At the end of the year	61,890,001	61,890,001
Net unrealised gains related to Investments at fair value through profit or loss		
At the beginning of the year	4,097,891	462,068
Net unrealised (loss)/gain from fair value adjustments on investments for the year	(1,614,321)	3,635,823
At the end of the year	2,483,570	4,097,891
Share of fair value at the end of the year	64,373,571	65,987,892

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Notes to the Financial Statements (continued)

For the year ended 31 March 2023

6. Cash and cash equivalents

	As at 31 March 2023 £	As at 31 March 2022 £
Cash at bank	665,906	165,432
	<u>665,906</u>	<u>165,432</u>

Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the funds and earn interest at the respective short-term deposit rates.

7. Ownership of the REIT

The REIT is incorporated in England and Wales whose capital structure consists of ordinary shares with a nominal value of £0.01 (2022: £0.01) each. Clause 16 of the REIT Articles of Association outlines the rights attached to these shares.

As at 31 March 2023, there were no preference shares in issue. On 16 September 2022, the REIT issued 401,326 ordinary shares with nominal value of £0.01 each for a total value of £429,419, of which £425,406 is share premium.

Ordinary shareholders will be entitled to dividends as declared in accordance with the Articles.

Ordinary shares carry voting rights as well as notice to attend general meetings of the REIT.

Set out below is the issued share capital of the REIT as at 31 March 2023 and 31 March 2022:

	As at 31 March 2023 £	As at 31 March 2022 £
Ordinary shares		
Shares in issue at beginning of the year	619,355	619,355
Issued during the year	4,013	–
Shares in issue at end of the year	<u>623,368</u>	<u>619,355</u>
Preference shares		
Shares in issue at beginning of the year	–	50,000
Redeemed during the year	–	(50,000)
Shares in issue at end of the year	<u>–</u>	<u>–</u>
Share premium		
At beginning of the year	61,316,145	61,316,145
Issued during the year	425,406	–
At end of the year	<u>61,741,551</u>	<u>61,316,145</u>

8. Auditor's remuneration

During the year, the REIT recognised an audit fee amounting to £30,200 (2022: £21,600), of which £28,600 (2022: £27,000) remains payable to the REIT auditor as at year end. During the year, £28,600 was paid to the auditor for audit of the Financial Statements (2022: £27,000). No non-audit service was provided during the year.

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Notes to the Financial Statements (continued)

For the year ended 31 March 2023

9. Taxation

The taxation income/expense is shown in the following table and recognises that revenue and expense items may affect the Financial Statements and tax returns in different years (timing differences).

	Year ended 31 March 2023 £	Year ended 31 March 2022 £
Current tax	–	–
Prior year adjustments	–	–
Deferred tax	–	–
Total tax charge	–	–

A reconciliation between tax expense and the product of accounting profit multiplied by the tax rate for the year ended 31 March 2023 and 31 March 2022 is as follows:

	Year ended 31 March 2023 £	Year ended 31 March 2022 £
Profit before tax	356,309	5,287,375
Tax at 19% (2022: 19%)	67,699	1,004,601
Income not taxable	(409,819)	(346,600)
Investment revaluation not taxable	306,721	(690,806)
Deductible expenses not able to be utilised	35,399	32,805
Total tax charge	–	–

10. Investment income

Investment income to be received is recognised when the REIT's right to receive the dividend payments is established. The M&G UK Shared Ownership Limited declared interim dividends of £2,156,940 during the year ended 31 March 2023 (2022: £1,824,212). As at 31 March 2023, the outstanding amount of dividends receivable is £Nil (2022: £Nil).

11. Accrued expenses and other current liabilities

	As at 31 March 2023 £	As at 31 March 2022 £
Tax advisory fees	102,120	59,760
Audit fees	28,600	27,000
Administration fees	12,675	31,350
Custodian fees	5,983	5,984
Regulatory fees	3,000	–
Total	152,378	124,094

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For the year ended 31 March 2023

12. Other operating expenses

	Year ended 31 March 2023 £	Year ended 31 March 2022 £
Professional fees	126,847	121,180
Audit fees	30,200	21,600
Management fees	17,069	17,713
Bank charges	194	90
Total	174,310	160,583

13. Employees and Directors

The REIT does not have any employees (2022: none).

The Directors did not receive any remuneration for their roles as Directors of the REIT for the year ended 31 March 2023 (2022: £Nil).

14. Earnings per share (EPS)

Basic EPS amounts are calculated by dividing the profit and comprehensive income for the year attributable to ordinary equity holders of the REIT by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS is calculated by dividing the profit attributable to ordinary equity holders of the REIT by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares. As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

The following table reflects the earnings and share data used in the basic and diluted EPS calculations:

	Year ended 31 March 2023	Year ended 31 March 2022
Earnings per share (basic and diluted)		
Comprehensive income for the year	£356,309	£5,287,375
Earnings per share	£0.01	£0.09
Weighted average number of ordinary shares in issue during the year	62,193,889	61,935,501

15. Related parties and transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

The REIT is 100% owned by the Partnership which is an English Limited Partnership within the meanings of the Limited Partnership Act 1907, the Partnership registered office is 10 Fenchurch Avenue, London, EC3M 5AG.

The REIT is the sole shareholder in the Company, a private limited company by shares registered in England and Wales. The REIT directors are therefore entitled to vote at general meetings of the Company.

The REIT is managed by the AIFM, which is a wholly owned subsidiary of M&G plc, both the AIFM and M&G plc are companies incorporated in England and Wales whose registered office is 10 Fenchurch Avenue, London, EC3M 5AG.

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15. Related parties and transactions (continued)

The REIT has entered into an Alternative Investment Fund Management Agreement with the AIFM to be responsible for the operation and the management of the REIT group. The fee earned by the AIFM shall not exceed amounts based on the Partnership AIFM agreement. The AIFM has discretion at which level the fee is charged but in no circumstance should exceed the amounts charged to Unitholders of the Partnership.

The following table reflects the management fees of the REIT:

	Rate	Fees £
Payable as at 31 March 2023		25,150
Expense for the year ended 31 March 2023	5%	17,069
Payable as at 31 March 2022		17,713
Expense for the year ended 31 March 2022	5%	17,713

The REIT entered into a transfer agreement on the 28 May 2020 with M&G Real Estate Limited for the transfer of £1 of ordinary shares in the Company. The £1 remains payable at the year end. The REIT also has a further £1 payable to M&G Real Estate Limited.

Chris Perkins, Mark Davie and Alexander Greaves are Directors of the REIT and Directors of the Company as well as Directors of the Board of the General Partner. The Directors did not receive any remuneration for their roles as Directors of the REIT or any of the other related Boards. On 23 March 2023, Chris Perkins resigned as director of the Company and Alexander Greaves was appointed as a director of the Company.

There were no transactions between the Directors and the REIT during the year (2022: Nil). The Directors are not aware of any related party transactions other than those disclosed in these Financial Statements.

The REIT has declared interim dividends of £1,930,796 during the year ended 31 March 2023 (2022: £1,585,550). As at 31 March 2023, the outstanding amount of dividends payable to the Partnership is £Nil (2022: £Nil). For details on the interim dividend received from the Company, please refer to Note 10.

	Dividend per share £	Quantity of shares
As at 31 March 2023		
Weighted average dividend per share declared		
24 May 2022	0.0065	61,935,501
18 August 2022	0.0081	61,935,501
17 November 2022	0.0100	62,336,827
20 February 2023	0.0066	62,336,827
	Dividend per share £	Quantity of shares
As at 31 March 2022		
Weighted average dividend per share declared		
24 November 2021	0.0181	61,935,501
21 February 2022	0.0075	61,935,501

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16. Contingencies and commitments

The REIT may be contingently liable with respect to lawsuits and other matters that arise in the normal course of business. The Directors are not aware of any contingencies which would have a material effect on the REIT's financial position and operations.

No commitments were made by the REIT during the year ended 31 March 2023 (2022: Nil).

17. List of subsidiaries

Name	% Control	Country	Registered Office	Nature of business
M&G UK Shared Ownership Limited	100%	United Kingdom	10 Fenchurch Avenue, London, EC3M 5AG	For-Profit Registered landlord for social housing

18. Subsequent events

The Directors have evaluated post Balance Sheet events up to 26 July 2023, which is the date the Financial Statements were authorised for issue, and have concluded that there are no material events that require disclosure other than those listed below.

On 22 May 2023, the REIT received a dividend from the Company of £551,555 (£0.0089 per share).

Dividends of £542,784 (£0.0087 per share) from the REIT payable to the Partnership were declared on 25 May 2023, the payment to the Partnership was made on 5 June 2023.

On 4 July 2023, the Partnership sent mid-quarter drawdown notices to Founder unitholders for £28,330,500 with a dealing date of 2 October 2023. The outstanding commitments of the Partnership up to the date of signing of the Financial Statements are £206,058,145. The Partnership will look to acquire shares in the REIT, and ultimately equity finance transactions that the Company looks to undertake.