Independent Auditor's Report

To the members of Stenprop Limited

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

1. Opinion

In our opinion the financial statements of Stenprop Limited (the 'parent company') and its subsidiaries (the 'group'):

- give a true and fair view of the state of the group's affairs as at 31 March 2020 and of the group's profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);
- have been properly prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

We have audited the financial statements which comprise:

- the Consolidated Statement of Comprehensive Income;
- the Consolidated Statement of Financial Position;
- the Consolidated Statement of Changes in Equity;
- the Consolidated Statement of Cash Flows;
- the related notes 1 to 31.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the International Accounting Standards Board (IASB).

2. Basis for opinion

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

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

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

3. Summary of our audit approach

Key audit matters	The key audit matter that we identified in the current year was: ▸ *Valuation of the property portfolio*
Materiality	The materiality that we used for the group financial statements was £7.8m which was determined on the basis of 2% of the net assets of the group.
Scoping	We performed a full scope audit to respond to the risks of material misstatement for the group and performed an audit the joint venture entities. Together these elements account for 100% of the group's net assets and 100% of profit before tax.
Significant changes in our approach	There have been no significant changes in our audit approach, other than to consider the impact of the Covid-19 pandemic which is discussed in more detail in the key audit matter and our approach to controls.

4. Conclusions relating to going concern, principal risks and viability statement

4.1 Going concern

We have reviewed the directors' statement in note 2 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and Parent Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the Group, its business model and related risks including where relevant the impact of the Covid-19 pandemic and Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the directors' plans for future actions in relation to their going concern assessment.

Going concern is the basis of preparation of the financial statements that assumes an entity will remain in operation for a period of at least 12 months from the date of approval of the financial statements.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

4.2 Principal risks and viability statement

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the Group's and the Parent Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 44 to 53 that describe the principal risks, procedures to identify emerging risks, and an explanation of how these are being managed or mitigated;
- the directors' confirmation on page 69 that they have carried out a robust assessment of the principal and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on page 46 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Viability means the ability of the Group to continue over the time horizon considered appropriate by the directors.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Independent Auditor's Report continued

To the members of Stenprop Limited

5. Key audit matters

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

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1 Valuation of the property portfolio

Key audit matter description

The group's investment property portfolio, as disclosed in note 16, is valued at £387.8 million as at 31 March 2020 (2019: £562.8 million). In addition, the group's share of investment property held by joint ventures is valued at £35.9 million (2019: £33.9 million) and property assets classified as held for sale are valued at £109.1 million (2019: £16.2 million).

The portfolio is independently valued by professionally qualified valuers in each geographic location using an income capitalisation model.

Management is required to make a number of significant assumptions and judgements in determining the fair value and therefore we have identified this as a potential fraud risk.

The key inputs into the fair value model which are subject to significant management estimates include market rents, market yields , vacancy rates, the credit-worthiness of tenants, as well as discount and capitalisation rates used in the discounted cash flows. Unreasonable assumptions could give rise to a material misstatement.

As detailed in note 16, in applying the Royal Institution of Chartered Surveyors (RICS) Valuation Global Standards 2020 ('Red Book'), the valuer has declared a 'material valuation uncertainty' in their valuation report. This is on the basis that market activity is being impacted in many sectors such that as at the valuation date they consider that they can attach less weight to previous market evidence for comparison purposes to inform opinions of value, and that a higher degree of caution should be attached to their valuation.

In addition to this, and consistent with the market conditions observed in the prior year, we note there continued to be a higher level of judgement associated with certain asset valuations, notably those with a significant leisure or retail elements. Covid-19 further increased judgement in relation to assumptions around:

- occupier demand and solvency;
- asset liquidity; and
- the relative impact on the different sectors including leisure and retail units within the portfolio.

The valuation of investment properties is disclosed as one of the key sources of estimation uncertainty in notes 4 and 16 of the financial statements and is further described in the Significant audit risks section of the Audit Committee Report.

How the scope of our audit responded to the key audit matter

To respond to the key audit matter, we have performed the following audit procedures:

- Obtained and documented an understanding of relevant controls in relation to the valuation process;
- Selected a sample of properties which we considered to be of most audit interest and with the assistance of our Real Estate Valuations specialists to audit the valuations in detail;
- Alongside our valuation specialists, discussed and challenged key inputs and assumptions with the valuers and management with reference to independent market data including Brexit and Covid-19 considerations;
- Assessed whether the valuers are independent of the Group and considered the reliability and competency of the valuers;
- Assessed the accuracy of the tenancy schedules and reconciled the rental values used in the valuations to the tenancy schedules including tracing a sample back to underlying lease agreements;
- Assessed whether the disclosures in the financial statements are appropriate and in accordance with IFRS 13 Fair Value Measurement; and
- Assessed whether all property valuations have been correctly included in the financial statements.

Key observations

We concluded that the assumptions applied by management, in arriving at the fair value of the group's property portfolio were appropriate, and that the resulting valuations were within a reasonable range.

While we note the increased estimation uncertainty in relation to the property valuation as a result of Covid-19, and as disclosed in note 16, we considered the assumptions applied in arriving at the fair value of the Group's property portfolio to be appropriate.

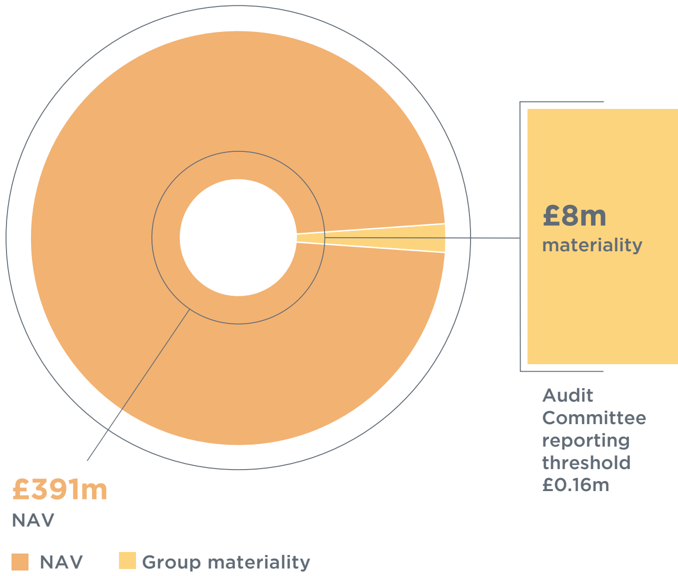
6. Our application of materiality

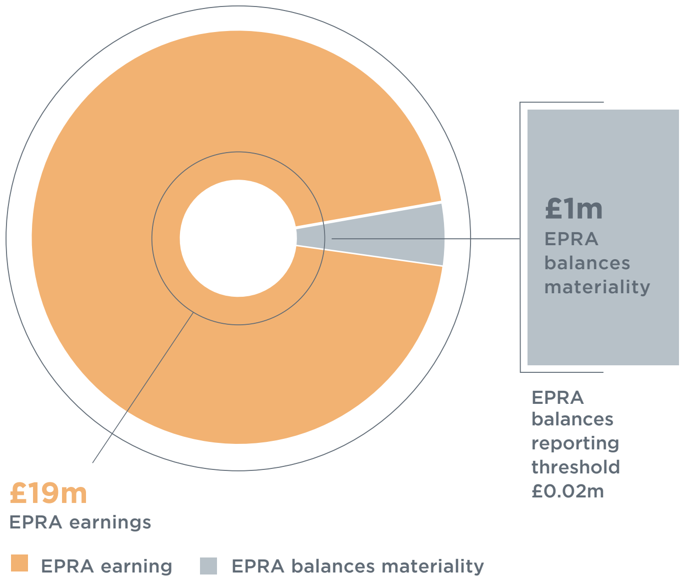
6.1 Materiality

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

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

	Group financial statements
Materiality	£7.8m (2019: £8.0m) and a lower materiality of £0.95m (2019: £1.2m) for balances affecting EPRA earnings.
Basis for determining materiality	2% (2019: 2%) of the group's net asset value. The lower materiality used for balances impacting EPRA earnings was determined based on approximately 5% (2019: 5%) of EPRA earnings.
Rationale for the benchmark applied	We determined that net asset value would be the most appropriate basis for determining overall materiality given that key users of the group's financial statements are primarily focussed on the valuation of the Group's assets; principally the investment property portfolio (whether held directly or through joint ventures) net of any external finance. In addition to net assets, we consider EPRA earnings per share to be a critical financial performance measure for the group on the basis that it is a key metric for analysts and investors. EPRA earnings per share is based on the Group's EPRA earnings which is reconciled to IFRS profit after taxation in note 14. We applied this lower threshold for testing all balances impacting EPRA earnings.





Independent Auditor's Report continued

To the members of Stenprop Limited

6.2 Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2020 audit (2019: 70%). In determining performance materiality, we considered the following factors:

- our risk assessment, including our assessment of the Group's overall control environment; and
- our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods.

6.3 Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.16m (2019: £0.16m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the group and its environment, including internal control, and assessing the risks of material misstatement at the group level.

We performed a full scope audit to respond to the risks of material misstatement in the consolidated financial statements and the joint venture entities. Together these elements account for 100% (2019: 100%) of the group's net assets and 100% (2019: 100%) of group's profit before tax. Audit work was executed at levels of Group or EPRA earnings materiality applicable to each account balance and our response to the risks of material misstatement was performed directly by the audit engagement team.

We have obtained an understanding of the group's system of internal controls and undertaken a combination of procedures, all of which are designed to target the group's identified risks of material misstatement in the most effective manner possible.

8. Other information

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- **Fair, balanced and understandable –** the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or

Audit committee reporting – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee.

We have nothing to report in respect of these matters.

9. Responsibilities of directors

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

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

11.1 Adequacy of explanations received and accounting records

Under the Companies (Guernsey) Law, 2008 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- proper accounting records have not been kept by the parent company; or
- the financial statements are not in agreement with the accounting records.

We have nothing to report in respect of this matter.

12. Use of our report

This report is made solely to the company's members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law, 2008. 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.

John Clacy, FCA
For and on behalf of Deloitte LLP
Recognised Auditor
Guernsey
11 June 2020