

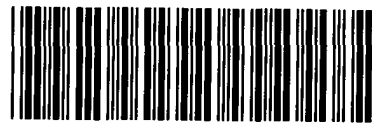
Company Registration Number 3702189

Honours Plc

Annual Report and Financial Statements

For the year ended 31 March 2014

FRIDAY



L3H838FE

LD6

26/09/2014

#22

COMPANIES HOUSE

ANNUAL REPORT AND FINANCIAL STATEMENTS 2014

CONTENTS	Page
Officers and professional advisers	1
Strategic report	2
Directors' report	6
Statement of directors' responsibilities	7
Independent auditors' report	8
Statement of comprehensive income	10
Statement of financial position	11
Statement of changes in equity	12
Statement of cash flows	13
Notes to the financial statements	14

Honours Plc

Directors

Wilmington Trust SP Services (London) Limited
Mignon Clarke
Martin McDermott

Company secretary

Wilmington Trust SP Services (London) Limited
Third Floor
1 King's Arms Yard
London
EC2R 7AF

Registered office

Third Floor
1 King's Arms Yard
London
EC2R 7AF

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London
SE1 2RT

STRATEGIC REPORT

The directors present the strategic report of Honours Plc (“the company”) for the year ended 31 March 2014.

Principal activity

The principal activity of the company is to own a beneficial interest in a student loan portfolio held in trust for it by Honours Trustee Limited (“HTL”). The loans pay a floating rate of interest linked to RPI. Under the terms of the purchase of the loans from the Student Loans Company Limited, HTL also receives a subsidy from the UK Government and the devolved administrations of Scotland and Northern Ireland (together the “Authority”) in an amount which fluctuates to match the RPI interest rate to a monthly floating rate set by reference to LIBOR.

The company funds its activities from issued floating rate debt securities. The debt securities are issued in Sterling and are listed on the Irish Stock Exchange. No changes in activity are envisaged.

The activities of the company are governed by the legal securitisation agreements of the company.

Review of developments and Key Performance Indicators

On 23 March 1999 Honours Plc commenced operations by drawing £1,000,007,082 on a warehouse facility agreement to acquire its beneficial interest in the loan portfolio. HTL acquired the portfolio of student loans (in which the company owns a beneficial interest) from the Student Loans Company Limited, a company wholly owned at that time by the Secretary of State for Education and Employment and the Secretary of State for Scotland. As the company does not retain all the risks and rewards arising from the loan portfolio, this beneficial interest has been recognised as a loan to a third party, secured by the underlying loan portfolio.

On 10 May 1999 the company issued £1,030,000,000 floating and fixed rate asset backed notes and used the proceeds to repay the warehouse facility and fund the payment of stamp duty on the purchase.

In November 2006 all outstanding floating and fixed notes were redeemed and refinanced by new floating notes issued for £418,200,000. As at 31 March 2014, there were £201,425,391 (2013: £214,179,501) floating rate notes outstanding excluding accrued expenses.

As shown in the Statement of Comprehensive Income, the company showed a reduced net interest income compared with the prior year, and the deficit on the company’s total equity reduced by 15% over the year (2013 – 16%).

Following the calculation period for the month ending 31st March 2014 there was an outstanding balance of £119,419 (2013: £102,979) on the principal deficiency ledger for the securitisation issuance. A positive balance on the principal deficiency ledger indicates that there is a carry forward of loan losses which need to be covered out of available income. During the twelve monthly calculation periods in the year ending 31st March 2014 income available to the principal deficiency ledger was £4,532,774 (2013: £4,515,725), while loan losses debited to the principal deficiency ledger were £2,571,869 (2013: £2,905,034), indicating a good level of excess income.

The directors believe that further key performance indicators for the company other than those described above are not necessary or appropriate for an understanding of the development, performance or position of the business.

STRATEGIC REPORT (CONTINUED)

Principal risks and uncertainties

Credit impairment of its customer base combined with a deterioration in UK economic conditions is a continuous risk for the company, which could result in a decline in customers' ability to pay, although the low interest rate on the loans and the deferment and ultimate cancellation provisions contained in their terms, together with the entitlements to income subsidy and indemnity upon cancellation which the company has under its purchase agreement with the Authority, make the company's business less exposed to this than a private sector consumer loan business.

As a result of its normal business activities, the company is exposed to a number of financial risks, including risks associated with its beneficial interest. In order to manage these risks effectively the company has established clear policies and procedures as set out below which are monitored on an ongoing basis.

The company is financed by loan notes secured upon the senior beneficial interest in the portfolio of loans.

Financial instruments

The company's financial instruments comprise loans and receivables and floating rate notes payable. Cash and liquid resources, accrued interest income and accrued interest payable arise directly from the company's operations. Aside from the loans and receivables balance, the main purpose of financial instruments is to raise finance for the company's operations.

It is, and has been throughout the year and the preceding year, the company's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the company's financial instruments are interest rate risk and liquidity risk. Other risks to which the company is exposed include credit and operational risks. The Board has adopted policies for managing each of these risks and they are summarised below. These policies have remained unchanged since the company commenced operations on 23 March 1999.

Business risks

The major risk to the business is that the student loans in which the company holds a beneficial interest will not be repaid in breach of the agreements. In circumstances where the loans are not repaid and are cancelled in compliance with their terms, the business relies on contractual indemnity payments from the Authority to compensate it. There is a risk that the loan portfolio may experience an increase in defaults or that the Authority might default on its payment obligations.

The purchase agreement with the Authority contemplates certain circumstances where the payments from the Authority may be delayed or withheld, or where the portfolio might need to be sold back to the Student Loans Company Limited at a discount. However none of these circumstances are currently expected to occur. Economically there will be more income to cover the cost of default if the average life of the portfolio is longer and as such the rapid repayment of the portfolio is a further risk. However there is at present no indication that this is occurring: the portfolio of subsidy eligible loans declined by only 6.0% in the year (2013: 6.0%). The notes which have been issued by the company are limited recourse to the extent of the Post Enforcement Call Option described in note 2.

STRATEGIC REPORT (CONTINUED)

Operational risks

The student loans are administered under a contract with Capita Customer Management Limited, formerly called Club 24 Limited (“Capita”). The current contract had a three year term but now runs with a 12 month notice period. The company is in discussions with Capita to renew the contract for a further term and it is expected that this will be agreed. Should either party not agree to the extension of this contract HTL would need to appoint a new administrator. There is a risk that a new administrator could not be found on acceptable terms or that Capita might fail in its responsibilities under the administration agreement.

Interest rate risk

Interest rate risk exists where assets and liabilities have interest rates set under a different basis or which reset at different times. The company minimises its exposure to interest rate risk by ensuring that the interest rate characteristics of its assets and liabilities are similar.

The company finances its operations entirely through the issue of floating rate notes and drawings on a floating rate loan facility. At the year end, all of the company’s borrowings were at floating rates set by reference to one month LIBOR, which is in line with the company’s policy. The underlying student loan assets have an interest rate set by reference to RPI. Under the terms of the purchase of the loans a subsidy is also payable by the Authority which fluctuates to match the RPI interest rate to a monthly floating rate set by reference to one month LIBOR.

Liquidity risk

The company’s liquidity policy throughout the year has been to seek to ensure sufficient liquid resources to cover its financial commitments. While this is substantially achieved as a result of payments on the floating rate notes liabilities being contingent on cash available, a facility provided by Danske Bank has been established which will be available, subject to certain criteria and circumstances, in the event of the company being unable, on a temporary basis, to meet its financial commitments. The Danske facility is subject to annual renewal and may be renewed at the company’s option. The interest rate payable, should the facility be drawn to fund shortfalls, is LIBOR plus 0.6%. During the year a standby drawing of the full facility amount has been made as a result of the downgrade of Danske Bank, as required under the facility terms. This drawing has no impact on the business of the company as the interest rate payable on standby drawings is less than or equal to the deposit rate on the drawn funds. It remains the case that the facility has not been drawn to fund a shortfall since it was put in place.

Credit Risk

The principal credit risk to the company is that repayments on the portfolio of loans in which the company has a beneficial interest will not be met as they fall due. The repayments on the portfolio of loans are being administered by Capita which the directors consider has a reliable loans monitoring system and credit control procedures to mitigate this credit risk. The company also has legal options in pursuing potential delinquent loans.

Foreign exchange risk

All amounts are denominated in sterling and therefore there is no currency exposure.

Employees

The company has had no employees during the year (2013: none).

Results and dividends

The audited financial statements for the year ended 31 March 2014 are set out on pages 10 to 28. The profit for the year after taxation was £2,424,000 (2013: profit £2,987,000).

Honours Plc

No dividends were declared or paid by the company during the year or the preceding year and the directors do not propose a final dividend.

Approved by the Board of Directors
and signed on behalf of the Board



Mignon Clarke

For and on behalf of Wilmington Trust SP Services (London) Limited

Director

Date: 26th September 2014

DIRECTORS' REPORT

The directors present their report on the affairs of of Honours Plc ("the company") together with the audited financial statements for the year ended 31 March 2014.

Going concern

In the current economic climate all companies are impacted by increased risks and uncertainties. The directors have obtained reasonable assurances that the present value of the expected future cash inflows will exceed the present value of the expected future cash outflows and, after making due enquiries, are of the opinion that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements. Further consideration of going concern is included in note 2 of the notes to the financial statements.

Future prospects

The directors believe the current level of activity will continue and the portfolio will continue to redeem.

The notes issued by the company contain an optional redemption clause which permits their redemption in full at the company's option on any interest payment date after 10 November 2011. There is no legal obligation to do so. To date the company has not sought to exercise this option notwithstanding the step-up in the interest margins payable on the notes.

Corporate Governance

The Directors are responsible for the Company's internal control environment and for reviewing its effectiveness. The governance structure of the Company is also such that some key policies have been predetermined at the time of issuance and the operational roles have been assigned to third parties with their roles strictly governed by the respective transaction documents. The governance structure of the Company provides for procedures that have been designed for safeguarding assets against unauthorised use or disposition; for maintaining proper accounting records; and for the reliability and usefulness of financial information used within the business or for publication. Such procedures are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement, errors, losses or fraud. The procedures enable the Company to comply with any regulatory obligations. For further details, refer to the notes to the financial statements particularly note 5 on financial risk management.

Directors and their interests

The directors of the company who served throughout the year and up to the date of signing this report were:

Wilmington Trust SP Services (London) Limited

Martin McDermott

Mignon Clarke (Appointed 31 July 2014)

Daniel Russell Fisher (Resigned 31 July 2014)

None of the directors hold any interest in the company. Wilmington Trust SP Services (London) Limited holds the two shares in Honours (Holdings) Limited, the parent company, under a declaration of trust for charitable purposes.

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006 and provided by Wilmington Trust SP Services (London) Limited. The indemnity was in force throughout the last financial year and is currently in force. The company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Directors.

DIRECTORS' REPORT (CONTINUED)

Statement of Directors Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Independent auditors

A resolution to re-appoint PricewaterhouseCoopers LLP will be proposed by the members at the forthcoming Annual General Meeting of the company.

Statement of disclosure of information to auditors

So far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware, and the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given, and should be interpreted, in accordance with the provisions of section 418 of the Companies Act 2006.

Approved by the Board of Directors
and signed on behalf of the Board



Mignon Clarke

For and on behalf of Wilmington Trust SP Services (London) Limited

Director

Date: 26th September 2014

Independent auditors' report to the members of Honours Plc

Report on the financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the company's affairs as at 31 March 2014 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The financial statements, which are prepared by Honours Plc, comprise:

- the statement of financial position as at 31 March 2014;
- the statement of comprehensive income for the year then ended;
- the statement of cash flows for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements (the "Annual Report") to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion 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.

Independent auditors' report to the members of Honours Plc (continued)

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 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
- 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.



Jessica Miller (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

Date: 26/9/14

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2014

	Note	2014 £'000	2013 £'000
Revenue			
Interest receivable and similar income	7	6,859	7,870
Interest payable and similar charges	8	(2,700)	(2,961)
Net Interest Income		<u>4,159</u>	<u>4,909</u>
Other income		119	98
Increase in value of secured loan due to impairment	11	273	139
Administrative expenses	9	(2,170)	(2,199)
Operating Profit		<u>2,381</u>	<u>2,947</u>
Other interest income		46	43
Profit before tax for the year		<u>2,427</u>	<u>2,990</u>
Tax on profit on ordinary activities	10	(3)	(3)
Profit and total comprehensive income for the year	19	<u><u>2,424</u></u>	<u><u>2,987</u></u>

The results above arose wholly from continuing operations. The company operates in a single business segment and all the company's activities are in the UK.

The accompanying notes form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION
As at 31 March 2014

	Note	2014 £'000	2013 £'000
Non-current assets			
Secured loan to third party	11	186,081	196,169
Current assets			
Trade and Other receivables	12	485	572
Cash and cash equivalents	13	21,837	22,037
Total current assets		22,322	22,609
Current liabilities			
Financial liability	14	(20,158)	(20,160)
Trade and other payables		(204)	(247)
Total assets less current liabilities		188,041	198,371
Non-current financial liabilities	15	(201,426)	(214,180)
Net liabilities		(13,385)	(15,809)
Equity			
Share capital	18	13	13
Accumulated losses	19	(13,398)	(15,822)
Total equity	20	(13,385)	(15,809)

The accompanying notes form an integral part of these financial statements.

These financial statements on pages 14 to 28 were approved by the Board of Directors on 26th September 2014 and signed on its behalf by



Mignon Clarke

For and on behalf of Wilmington Trust SP Services (London) Limited
Director

Date: 26th September 2014

Company registration number 3702189

STATEMENT OF CHANGES IN EQUITY
For year ended 31 March 2014

	Share Capital £'000	Accumulated losses £'000	Total equity £'000
At 1 April 2013	13	(15,822)	(15,809)
Profit and total comprehensive income	-	2,424	2,424
	<u>13</u>	<u>(13,398)</u>	<u>(13,385)</u>
At 31 March 2014	13	(13,398)	(13,385)
At 1 April 2012	13	(18,809)	(18,796)
Profit and total comprehensive income	-	2,987	2,987
	<u>13</u>	<u>(15,822)</u>	<u>(15,809)</u>
At 31 March 2013	13	(15,822)	(15,809)

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 March 2014

	Note	2014 £'000	2013 £'000
Operating activities			
Cash flow from operations	21	414	(227)
Income tax paid		(3)	(3)
Net cash generated from operating activities		<u>411</u>	<u>(230)</u>
Investing activities			
Repayments on secured loan		<u>12,145</u>	<u>12,906</u>
Net cash generated from investing activities		<u>12,145</u>	<u>12,906</u>
Financing activities			
Loan drawings	14	-	20,000
Note repayments		<u>(12,756)</u>	<u>(12,967)</u>
Net cash (used in) / generated from financing activities		<u>(12,756)</u>	<u>7,033</u>
Net change in cash and cash equivalents		<u>(200)</u>	<u>19,709</u>
Cash and cash equivalents at beginning of year		<u>22,037</u>	<u>2,328</u>
Cash and cash equivalents at end of year		<u><u>21,837</u></u>	<u><u>22,037</u></u>

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2014

1. GENERAL INFORMATION

Honours Plc is a public limited company incorporated and domiciled in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 1. The nature of the company's operations and its principal activities are set out in the directors' report.

The activities of Honours Plc are entirely undertaken in the UK and all its activities are sterling denominated.

2. GOING CONCERN

The directors are of the opinion that over the period to maturity of the notes, on the basis of their best estimate as to the underlying performance of future cash receipts from the student loan portfolio, the present value of the expected cash inflows will exceed the present value of the expected cash outflows. According to the terms of the floating notes, where there are insufficient funds to repay the notes at legal maturity (2029), the Priority of Payments detailed in the offering circular dated 3 November 2006 is followed. Under the terms of this schedule each class of notes is subordinated to the class ranking immediately above it.

The notes are full recourse obligations of the company and are issued subject to an option of the company's parent to acquire the notes for nominal consideration, the post enforcement call option, should any of the notes remain outstanding following enforcement of their rights and realisation of the assets of the company. Following the purchase of such remaining note obligations by the company's parent, the directors of the company would rely on the parent to support the continued operation of the company through the cancellation of the notes. The notes are therefore viewed as being "without recourse" and the company will only be liable to make any payments to the extent that it has received sufficient funds to enable it to do so.

On the basis of the above, the directors consider the company able to meet its liabilities as they fall due for the foreseeable future and accordingly, that the financial statements should continue to be prepared on a going concern basis.

3. ADOPTION OF NEW AND REVISED STANDARDS

At the date of authorisation of these financial statements the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

Standard/Interpretation	Effective for periods commencing on or after
Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income	1 July 2014
IFRS 9, 'Financial instruments' – classification and measurement	1 January 2015
IFRS 10, 'Consolidated financial statements'	1 January 2014
IFRS 13, 'Fair value measurement'	1 July 2014
IAS 27 (revised 2011) 'Separate financial statements'	1 January 2014
Amendment to IAS 32, 'Financial instruments: Presentation', on offsetting financial assets and financial liabilities	1 January 2014

The pronouncements above will be relevant to the Company but were not effective at 31 March 2014, and have not been applied in preparing these financial statements. The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2014

4. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared under the historical cost convention in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 17.

The principal accounting policies which have been disclosed below have been consistently applied throughout the year.

Share Capital

Ordinary shares are classified in equity. Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders. Dividends for the year that are declared after the balance sheet date are dealt with in the subsequent events note.

Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products and services within a particular economic environment that are subject to risk and returns that are different from those segments operating in other economic environments.

The Directors consider that the entity has only one geographical and one business segment and therefore is not required to produce additional segmental disclosures.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Interest receivable and payable

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' and 'interest expense' in the Statement of Comprehensive Income using the effective interest method.

Financial instruments

In accordance with IAS 39, the financial instruments of the company have been classified into the following categories:

a) Cash and cash equivalents

Cash and cash equivalents are comprised of cash at the bank and short term treasury term deposits.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2014

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Loans and receivables

Loans and receivables represent a portfolio of student loans in which the company owns a senior beneficial interest. These portfolios were purchased from the Student Loan Company Limited at a price, including the stamp duty which was applied, equal to par. The company acquired its beneficial interest in the student loan portfolio pursuant to the declaration of trust made by HTL and as a result of which HTL makes payments calculated in accordance with the terms of the trust to the company.

As the company does not retain all the risks and rewards arising from the loan portfolio, this beneficial interest has been recognised as a loan to a third party, secured by the underlying loan portfolio.

This secured loan has been classified within the 'loans and receivables'. It was initially measured at fair value and has subsequently been measured at amortised cost using the effective interest rate method. The effective interest rate is determined based upon the total collections to be received, estimated on a systematic basis reflecting the characteristics and quality of the underlying portfolio together with the collection experience since acquisition.

In addition to this, the company benefits from an income subsidy paid by the UK Government and the devolved administrations of Scotland and Northern Ireland (together the "Authority") in respect of loans qualifying, being all loans which are not an 'Overdue Loan 24 Plus', as defined in the purchase agreement for the loans, equal to the difference between the loan interest rate and LIBOR + 2.69%. This is included in the effective interest rate on the loans and receivables.

Impairment provisions are made where objective evidence indicates that it is likely that losses may ultimately be realised and are applied to both principal and interest receivable amounts. The company assesses at each financial year end whether there is objective evidence that the secured loan is impaired. Impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan (a 'loss event') and that loss event (or events) has an impact on the future cash flows of the loan that can be reliably estimated.

For disclosure purposes the secured loan has been classified as a non-current asset as, while it is expected that repayments will be received in the next year, the amount of repayments received is dependent on the income and behavioural profile of borrowers in the underlying portfolio of student loans.

c) Financial liabilities at amortised cost

All financial liabilities held by the company are initially measured at fair value and are subsequently measured at amortised cost using the effective interest method.

For disclosure purposes the floating rate notes have been classified as non-current liabilities as the principal redemptions on the notes are dependent on the repayments received from the portfolio of student loans underlying the secured loan and therefore principal repayments on the notes do not fall due until repayments have been received. The amount of repayments received from the underlying student loans is dependent on the income and behavioural profile of the borrowers.

Any premium and discounts are amortised over the period to expected maturity as part of the effective interest rate method.

Taxation

Under the powers conferred by the Finance Act 2005 (the "Act"), legislation was enacted in 2006 which ensures that, subject to certain conditions being met and an election being made, for periods commencing on or after 1 January 2007, corporation tax for a 'securitisation company' will be calculated by reference to the profit of the securitisation company required to be retained in accordance with the relevant capital market arrangement.

The directors are satisfied that the company meets the definition of a 'securitisation company' as defined by both The Finance Act 2005 and the subsequent secondary legislation and that no incremental unfunded tax liabilities will arise. Additionally, no deferred tax amounts are recognised by the company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2014

5. RISK MANAGEMENT AND CONTROL

As a result of its normal business activities, the company is exposed to a range of risks, the most significant being interest rate risk, liquidity risk, credit risk and operational risk.

a) *Operational risk*

Operational risk is defined by the company as the potential risk of financial loss, or impairment to reputation, as a result of internal process failures, or from the inappropriate actions of employees or management. The board of directors has ultimate responsibility for establishing the framework in which operational risk is managed. A substantial part of the operations of Honours Trustee Limited ("HTL") and those that are concerned with its customers are contracted to Capita under an agreement which currently runs with a 12 month notice period. The company will seek to ensure that this contract is either extended or that an alternative provider is identified to provide operational services at the term of the contract. The company actively manages its contractual relationship with Capita to ensure that all potential operational issues are identified, mitigated or resolved at the earliest opportunity.

b) *Foreign exchange risk*

All amounts are denominated in sterling and therefore there is no currency exposure.

c) *Credit risk*

Credit risk is defined by the company as the potential for loss as a result of the non payment of receivables by their obligors in accordance with the terms of those receivables. The company's main asset is a beneficial interest in the assets of HTL, which comprise a portfolio of student loans, rights to receive subsidy and other payments from the Authority under the terms of the purchase agreement and cash balances held with financial institutions totalling £21,837,000 at the year end. This includes a deposit of £20,000,000 in respect of the standby drawing of the liquidity facility. Over time the percentage of loans in deferment in the portfolio is increasing and the credit profile of the portfolio is becoming less exposed to borrower payment risk and more to the Authority indemnity obligations.

The principal credit exposures of the group are the UK Government and the Authority, and the borrowers in the portfolio. The credit exposure of the company to the borrowers in the portfolio is limited due to the indemnity provided by the Authority which means that the only exposure of the company to borrowers in the portfolio is to borrowers whose loans have been in long term arrears and cease to be eligible for indemnity payments. The credit risk of borrowers who have kept their financial statements up to date through repayments or deferment of their payments, or whose loans are in arrears but have not yet ceased to be eligible for the indemnity is borne by the Authority. As at 31 March 2014 there were 50,470 live debit balance customer accounts within the non-charged off portfolio (2013 - 56,136). The largest customer balance was £17,696 (2013 - £17,110). Large balances are not common and balances over £8,000 accounted for £23,910,506 (2013 - £20,729,095), 11.9% (2013 - 9.7%) of the portfolio balance. The increase in larger balances is entirely due to accrued interest as no new loans have been originated.

As at 31 March 2014, the credit exposure of the company was:

	Carrying value £'000	Maximum exposure £'000
Underlying student loan debtors	186,081	200,424
UK Government	485	485
Financial institutions	21,837	21,837
Total	208,403	222,746

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2014

5. RISK MANAGEMENT AND CONTROL (continued)

As at 31 March 2013, the credit exposure of the company was:

	Carrying value £'000	Maximum exposure £'000
Underlying student loan debtors	196,169	212,875
UK Government	572	572
Financial institutions	22,037	22,037
Total	218,778	235,484

The student loans themselves are written on favourable terms to the borrowers who may defer repayments if they earn less than the current deferment threshold (which was £27,813 per annum at the year end). Providing that borrowers keep their account up to date, they may also ultimately be entitled to have their loan cancelled. In such circumstances HTL will receive an indemnity payment from the Authority. Interest on the loans is below market and set at a rate equivalent to the annual rate of change in the retail prices index. During the year interest on the loans was charged at an average rate of 4.3%.

The HTL declaration of trust defines cash proceeds from the portfolio and the Authority as either principal receipts or income receipts and the company is entitled to receive all the principal receipts on the trust property together with as much of the income receipts as are required by the company to meet its expense obligations and to make good any credit losses. In the first instance the Second Beneficiary of the HTL declaration of trust will bear credit losses.

The following tables provide a breakdown of the arrears status of past due accounts at the financial year end which are disclosed net of the effective provision for impairment:

Past due accounts		
	2014 £'000	2013 £'000
0-1 months in arrears	1,864	2,049
2-6 months in arrears	1,335	1,462
7-12 months in arrears	967	1,183
13-18 months in arrears	242	155
19-23 months in arrears	360	309
Total	4,768	5,158

Loans which are 24 or more months past due have been written off in the company's financial statements and this is reflected in the valuation of the secured loan. The impairment is calculated based on the observed likelihood of loans meeting the write-off criteria once they have moved into the relevant arrears grouping.

The adjustment to the carrying value of the secured loan as a result of the impairment of the underlying portfolio has moved as follows during the year:

	2014 £'000	2013 £'000
Opening value impairment	3,873	4,715
(Release) for period	(273)	(139)
Write-offs	(2,572)	(2,905)
Recoveries	2,219	2,202
Closing value impairment	3,247	3,873

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2014

5. RISK MANAGEMENT AND CONTROL (continued)

d) *Market value risk*

Market value risk is the potential movement in the fair value of the portfolios purchased. Due to the non-recourse nature of the notes, the fair market value of the notes in general moves in line with this. Moreover the absence of any accounting driven covenants or capital requirements means that any such movement does not pose a risk to the going concern status of the business.

e) *Interest rate risk*

Interest rate risk exists where assets and liabilities have interest rates set under a different basis or which reset at different times. The company minimises its exposure to interest rate risk by ensuring that the interest rate characteristics of its assets and liabilities are similar.

The company finances its operations entirely through the issue of floating rate notes. The assets also earn interest on their outstanding balance at a floating rate taking into account the income subsidy paid by the Authority which converts the RPI interest basis of the loans into a rate varying with the LIBOR rate on the floating rate notes. At 31st March 2014 the effective interest rate on the loans and receivables was 4.3%. (2013- 4.4%) and the interest rate on issued floating rate notes is between 0.7% and 3.5% (2013- 0.7% and 4.3%).

The following table provides a summary of the interest rate re-pricing profile of the company's assets and liabilities. Assets and liabilities have been allocated to periods by reference to the earlier of the next interest rate reset date and the contractual maturity date.

£000s	31 March 2014						Non interest bearing	Total
	Less than 3 months	3 to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	No re-price date		
Non-current assets								
Secured Loan to third party	186,081	-	-	-	-	-	-	186,081
Current assets								
Trade and other receivables	-	-	-	-	-	-	485	485
Cash and cash equivalents	21,837	-	-	-	-	-	-	21,837
Total assets	207,918	-	-	-	-	-	485	208,403
Current liabilities								
Financial liabilities	(20,158)	-	-	-	-	-	-	(20,158)
Trade and other payables	-	-	-	-	-	-	(204)	(204)
Total	187,760	-	-	-	-	-	281	188,041
Non-current financial liabilities	(201,426)	-	-	-	-	-	-	(201,426)
Total	(13,666)	-	-	-	-	-	281	(13,385)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2014

5. RISK MANAGEMENT AND CONTROL (continued)

£000s	31 March 2013						Non interest bearing	Total
	Less than 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	No re-price date		
Non-current assets								
Secured Loan to third party	196,169	-	-	-	-	-	-	196,169
Current assets								
Trade and other receivables	-	-	-	-	-	-	572	572
Cash and cash equivalents	22,037	-	-	-	-	-	-	22,037
Total assets	<u>218,206</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>572</u>	<u>218,778</u>
Current liabilities								
Financial liabilities	(20,160)	-	-	-	-	-	-	(20,160)
Trade and other payables	-	-	-	-	-	-	(247)	(247)
Total	<u>198,046</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>325</u>	<u>198,371</u>
Non-current financial liabilities	<u>(214,180)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(214,180)</u>
Total	<u>(16,134)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>325</u>	<u>(15,809)</u>

Interest rate sensitivity analysis

In general terms the company has limited exposure to movements in interest rates since the subsidy paid by the Authority on the eligible loans within HTL's loan portfolio (which is fixed with reference to 1 month sterling LIBOR) matches the interest rate charged on the company's borrowings. However differences between the balance of floating rate assets and the balance of floating rate liabilities do exist which combined with the discount at which the floating rate assets are held in the company's Statement of Financial Position will give rise to variances in the company's profit and loss.

If interest rates had been 1% higher / lower and all other variables were held constant, the company's profit for the year ended 31 March 2014 would increase / decrease by £8,352 (2013: increase / decrease by £7,327).

The sensitivity analysis is an indication of how movements in interest rates may impact the company's financial performance. Future movements in market interest rates are unpredictable.

The company has no interest rate swap contracts in place (2013: none).

f) Liquidity risk

The company seeks to ensure sufficient liquid resources to cover cash flow and funding fluctuations. The terms of its securitisation financing ensure that the company's cash liabilities are matched to the cash available to it. In the event that there is a shortfall in cash required to cover current senior expenses, the company has access to a £20 million committed facility provided by Danske Bank. The Danske Bank facility is subject to annual renewal and may be renewed at the company's option. As a result of the downgrading of Danske Bank by Standard & Poor's, a standby drawing has been made on the liquidity facility and the proceeds are on deposit at Deutsche Bank as account bank and guaranteed investment contract counterparty.

The table below analyses the company's liabilities into relevant maturity groupings based upon the remaining period between the financial year end and the contractual maturity date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2014

5. RISK MANAGEMENT AND CONTROL (continued)

£000	Weighted average effective interest rate	31 March 2014			Total
		Less than 3 months	Less than 5 years	5+ years	
Accrued expenses	-	204	-	-	204
Floating rate liabilities	1.4725%	20,158	-	250,941	271,099
Total		20,362	-	250,941	271,303

£000	Weighted average effective interest rate	31 March 2013			Total
		Less than 3 months	Less than 5 years	5+ years	
Accrued expenses	-	247	-	-	247
Floating rate liabilities	1.3752%	20,160	-	266,631	286,791
Total		20,407	-	266,631	287,038

The interest rates assumed are the 1 month LIBOR rate at each financial year end.

Floating rate notes are not due to be repaid in full until their final maturity date of 10 April 2029.

Interest is capitalised and paid at final maturity as the earliest date on which the company is obliged to pay interest.

g) Fair value of assets and liabilities

The directors have estimated the fair value of the floating rate notes as at 31st March 2014 based on prices quoted to them by traders in these securities and, in the absence of such quoted prices, an estimate of value based on the implied credit spreads of the transactions for the floating rate notes which have traded and the average lives of each class of floating rate notes. These estimation techniques are necessarily subjective in nature and involve a number of assumptions. The secured loan to third party represents an interest in the underlying student loans materially equivalent to the floating rate notes and therefore the directors consider that it is consistent to value this in the same way, adjusting for any further claims of the company on the assets and timing differences.

	31 March 2014	
	Fair Value £'000	Carrying Value £'000
Secured loan to third party	168,060	186,081
Trade and other receivables	485	485
Cash and cash equivalents	21,837	21,837
Total assets	190,382	208,403
Current financial liabilities	(20,158)	(20,158)
Trade and other payables	(204)	(204)
Total assets less current liabilities	170,020	188,041
Non-current financial liabilities	(169,655)	(201,426)
Total equity	365	(13,385)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2014

5. RISK MANAGEMENT AND CONTROL (continued)

	31 March 2013	
	Fair Value £'000	Carrying Value £'000
Secured loan to third party	159,105	196,169
Trade and other receivables	572	572
Cash and cash equivalents	22,037	22,037
Total assets	181,714	218,778
Current financial liabilities	(20,160)	(20,160)
Trade and other payables	(247)	(247)
Total assets less current liabilities	161,307	198,371
Non-current financial liabilities	(161,002)	(214,180)
Total equity	305	(15,809)

At the reporting date, the carrying amounts of the company's financial assets and liabilities for which fair values were determined directly, in full or part, by reference to price quotations and determined using valuation techniques are below. The carrying values of cash and cash equivalents, trade and other receivables, current financial liabilities and trade and other payables are a reasonable approximation of the fair values of these instruments.

31 March 2014				
Hierarchy levels, assets	Level 1	Level 2	Level 3	Total
<i>Assets at amortised cost whose fair value is disclosed.</i>				
Secured Loan to third Party	-	-	168,060	168,060
Hierarchy levels, liabilities	Level 1	Level 2	Level 3	Total
<i>Liabilities at amortised cost whose fair value is disclosed.</i>				
Non-current financial liabilities	-	-	169,655	169,655
31 March 2013				
Hierarchy levels, assets	Level 1	Level 2	Level 3	Total
<i>Assets at amortised cost whose fair value is disclosed.</i>				
Secured Loan to third Party	-	-	159,105	159,105
Hierarchy levels, liabilities	Level 1	Level 2	Level 3	Total
<i>Liabilities at amortised cost whose fair value is disclosed.</i>				
Non-current financial liabilities	-	-	161,002	161,002

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2014

6. DIRECTORS AND EMPLOYEES

	2014 £'000	2013 £'000
Wilmington Trust SP Services (London) Limited		
Corporate services fee	47	47

Wilmington Trust SP Services (London) Limited provides corporate services to the company. Corporate services provided include making available the services of the directors to the company.

No other fees or emoluments other than those disclosed above were paid to any directors. The company does not have any employees (2013 – nil).

7. INTEREST RECEIVABLE AND SIMILAR INCOME

	2014 £'000	2013 £'000
Effective interest receivable from third party loan	6,859	7,870
	6,859	7,870

8. INTEREST PAYABLE AND SIMILAR CHARGES

	2014 £'000	2013 £'000
Effective interest payable on floating rate notes and start-up loan	(2,700)	(2,961)
	(2,700)	(2,961)

9. ADMINISTRATIVE EXPENSES

	2014 £'000	2013 £'000
Administration fees	1,640	1,860
Amounts paid to auditors		
- The Audit of the individual		
Financial statements	36	36
- Tax compliance services	15	7
- Other assurance services	10	19
Other fees	469	277
	2,170	2,199

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2014

10. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2014 £'000	2013 £'000
UK corporation tax on the profit for the year	(3)	(3)

Factors affecting the Company current tax charge for the year:

The current tax charge for the year is lower (2013: lower) than the standard rate of corporation tax in the UK of 23% (2013: 20%). The difference is explained below:

	2014 £'000	2013 £'000
Profit on ordinary activities before tax	2,427	2,990
Current tax charge at 23% (2013: 20%)	(558)	(598)
Adjustment for accounting profits not taxed in accordance with SI 2006/3296	558	598
Adjustment for cash retained profit taxed in accordance with SI 2006/3296	(3)	(3)
Actual current tax charge	(3)	(3)

11. SECURED LOAN TO THIRD PARTY

	2014 £'000	2013 £'000
As at 1 April	196,169	206,914
Interest income accrued	6,859	7,870
Loan amounts received or written off	(17,220)	(18,754)
Increase in value of secured loan due to impairment	273	139
As at 31 March	186,081	196,169

12. TRADE AND OTHER RECEIVABLES

	2014 £'000	2013 £'000
Other receivables	485	572
	485	572

The receivable is comprised of payments of subsidy and other amounts accrued but unpaid by the Authority at the financial year end together with cash held by the administrator of the portfolio on trust for the company and other beneficiaries.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2014

13. CASH AND CASH EQUIVALENTS

	2014 £'000	2013 £'000
Cash on deposit subject to Guaranteed Investment Contract	21,837	22,037
	<u>21,837</u>	<u>22,037</u>

All cash and cash equivalents of the company and in the account of Honours Trustee Limited of which the company is the principal beneficiary are held subject to the terms of a Guaranteed Investment Contract entered into with Deutsche Bank. These balances include any standby drawings which have been made under the company's liquidity facility agreement with Danske Bank and which are held by the company in its own account subject to the rights granted to creditors under a Deed of Charge. In the event that the credit rating of Danske Bank were to meet the minimum required credit rating under the terms of the facility agreement, the company would be obliged to repay this loan drawing which as at 31 March 2014 was £20,000,000 (2013 - £20,000,000) and incurs an interest rate of 0.2% as at 31 March 2014.

14. CURRENT FINANCIAL LIABILITIES

	2014 £'000	2013 £'000
Bank loan	(20,000)	(20,000)
Accrued interest payable	(158)	(160)
	<u>(20,158)</u>	<u>(20,160)</u>

The bank loan represents the Standby Drawing under the Danske Facility the proceeds of which are held as cash subject to the Guaranteed Investment Contract (see note 13).

15. NON-CURRENT FINANCIAL LIABILITIES

	2014 £'000	2013 £'000
Floating rate notes (see note 16)	201,426	214,180
	<u>201,426</u>	<u>214,180</u>

The company has pledged all its assets including its interest in the student loan portfolio, receivables under the sale and purchase agreement and any cash balances from time to time as security to support its financial liabilities pursuant to a Deed of Charge.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2014

16. FLOATING RATE NOTES

There are six classes of floating rate notes issued, all due in 2029:

	2014 £'000	2013 £'000
Series 2 Class A1 asset backed floating rate notes	77,735	87,930
Series 2 Class A2 asset backed floating rate notes	54,200	54,200
Series 2 Class B asset backed floating rate notes	32,165	33,350
Series 2 Class C asset backed floating rate notes	17,361	18,000
Series 2 Class D asset backed floating rate notes	11,526	11,950
Series 2 Class E asset backed floating rate notes	8,439	8,750
	<u>201,426</u>	<u>214,180</u>

The Series 2 notes were issued at par on 10 November 2006.

The Class A issuer notes rank, respective of series, with preference or priority among themselves. Subject to the relevant scheduled and/or, as applicable, permitted redemption dates or other payment conditions of the issuer notes, payments of principal and interest due and payable on the Class A issuer notes respective of series will rank ahead of payments of principal and interest due and payable on the Class B issuer notes, the Class C issuer notes, the Class D issuer notes and the Class E issuer notes subject to the terms and conditions of the issuer notes, the Issuer Cash Management Agreement, the Issuer Deed of Charge, the Honours Plc Deed of Charge and the other issuer transaction documents. Similarly, payments of principal and interest due and payable on the Class B issuer notes will rank ahead of payments of principal and interest due and payable on the Class C issuer notes, Class D issuer notes and Class E issuer notes, payments of principal and interest due and payable on the Class C issuer notes will rank ahead of payments of principal and interest due and payable on the Class D issuer notes and Class E issuer notes, and payments of principal and interest due and payable on the Class D issuer notes will rank ahead of payments of principal and interest due and payable on the Class E issuer notes.

Following the contractual margin step-up from in November 2011, the interest rates payable on the floating rate notes are as follows:

Class A1 asset backed floating rate notes	LIBOR +0.22%
Class A2 asset backed floating rate notes	LIBOR +0.28%
Class B asset backed floating rate notes	LIBOR +1.00%
Class C asset backed floating rate notes	LIBOR +1.60%
Class D asset backed floating rate notes	LIBOR +3.75%
Class E asset backed floating rate notes	LIBOR +3.00%

17. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

Some assets and liability amounts reported in the financial statements are based on management estimates and assumptions, in particular the beneficial interest in the student loan portfolios, which is calculated on an effective interest basis. The effective interest is calculated with reference to expected cash flows and future performance of the underlying student loan portfolio. There is therefore a risk of significant changes to the carrying amounts for these assets and liabilities within the next financial year.

In particular, the company reviews its beneficial interest to assess impairment, in determining whether an impairment loss should be recorded in the income statement. In undertaking this review, the company makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the portfolio.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2014

18. SHARE CAPITAL

There are 10,000,000 authorised shares of £1 each (2013: 10,000,000) of which 2 (2013: 2) are called up and fully paid and 49,998 (2013: 49,998) are called up and partly paid at 25p per share.

The company is not subject to externally imposed capital requirements in either the current or prior year.

19. ACCUMULATED LOSSES

	2014 £'000	2013 £'000
Loss brought forward	(15,822)	(18,809)
Profit for the year	2,424	2,987
Accumulated loss at end of year	<u>(13,398)</u>	<u>(15,822)</u>

Losses brought forward result from the accounting of the loans under previously applicable accounting standards. It is anticipated that accumulated losses will be offset by future profits as anticipated repayments on the loans in excess of the carrying value accrue to income. Currently the face value of the loans owned by the receivables trust substantially exceeds the carrying value of the loans and is approximately equal to the balance of the note liabilities. The company is entitled to receive the income required to cover its expenses including any losses on the loans not covered by the cancellation indemnity. To the extent that sufficient income is available as anticipated to cover the company's losses over the remaining term of the financing and the notes are repaid in full, the recovery of the balance of the loans will generate a gain of approximately the current accumulated loss.

20. RECONCILIATION OF MOVEMENTS IN TOTAL EQUITY SHAREHOLDERS' DEFICIT

	2014 £'000	2013 £'000
Opening total equity	(15,809)	(18,796)
Profit for the financial year	2,424	2,987
Closing total equity	<u>(13,385)</u>	<u>(15,809)</u>

21. CASH FLOW FROM OPERATIONS

	2014 £'000	2013 £'000
Profit before tax for the year	2,427	2,990
Decrease / (increase) in receivables	87	(514)
Decrease in payables	(43)	(542)
Increase in value of secured loan due to impairment	(273)	(139)
Effective interest receivable from secured loan	<u>(1,784)</u>	<u>(2,022)</u>
Net cash flow from operating activities	<u>414</u>	<u>(227)</u>

The movement in interest payable is included in repayments in the Statement of Cash Flows.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2014

22. RELATED PARTY TRANSACTIONS

There are no Related Party Transactions for this financial period.

23. ULTIMATE PARENT UNDERTAKING

The ultimate parent undertaking is Honours (Holdings) Limited, a company incorporated in Great Britain. This is the smallest and largest group in which the results of the company are consolidated. The ultimate controlling party is Honours (Holdings) Limited. Wilmington Trust SP Services (London) Limited, a company incorporated in Great Britain, holds the shares of Honours (Holdings) Limited under the terms of a discretionary trust for charitable purposes. The financial statements are available from Wilmington Trust SP Services (London) Limited, Third Floor, 1 King's Arms Yard, London EC2R 7AF.