Company Registration No. 3818321

ANNINGTON RENTALS (HOLDINGS) LIMITED

Report and Financial Statements

31 March 2014

ANNINGTON RENTALS (HOLDINGS) LIMITED

REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2014

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STRATEGIC REPORT

Annington Rentals (Holdings) Limited ("the Company") is the holding company of nine subsidiaries making up the Rentals subgroup of the Annington Group of companies. As a holding company, its performance is dependent on that of its subsidiaries, whose performance, objectives and principal risks and uncertainties are described below.

The Rentals Subgroup was established in 1999 with the purpose of creating a series of residential investment portfolios, free of the constraints and conditions governing the Homes Subgroup portfolio, another subgroup within the Annington Limited corporate structure. Since that time, the Rentals Subgroup has grown to nine subsidiary companies which own 1,518 (2013: 1,556) properties and manage a further 86 (2013: 75) properties. The rentals portfolio is financed by external bank debt, drawn-down to the value of £153.7 million at 31 March 2014 (2013: 2 facilities £136.2 million drawn down). This facility is repayable in December 2018, with further details set out in Financing (below).

The Rentals Subgroup continues to look for opportunities to maximise returns through planned acquisitions and strategic sales.

PROPERTY MARKET OVERVIEW

Sentiment in the UK residential sales market has improved significantly over the year, with substantial evidence of increased activity and rising prices in all regions of the United Kingdom. According to the House Price Index data released by the Office of National Statistics for March 2014, prices in England are now 4.6% above their pre-crisis peak where the typical cost of a home has jumped annually by 8.5% to reach £263,000. In Wales prices have risen 4.9% to £164,000 in the year (Annington only owns properties in England and Wales). Annual house price increases in England were driven by a 17.0% increase in London, 6.1% in the South East and 6.6% in the East of England. The slowest increase in the country was in the North West where prices gained 3.1%. This is in stark contrast to the situation a year ago and the improving market conditions are being evidenced by all the major market commentators. The Nationwide reported that UK house prices were 9.5% higher in March 2014 than a year previously, the Halifax at 8.7% and Rightmove at 7.3%.

A number of factors have contributed to this change in fortunes in the housing market. An inherent imbalance between supply and demand has been evident in the market for a considerable period and it was only a matter of time before the full effect of this imbalance was felt; it is currently at its highest since 2009. The supply/demand gap remains extended with no sign of changing in the short-term.

Demand has been steadily increasing against a backdrop of low interest rates and higher consumer confidence, bolstered by signs that the economy is recovering and unemployment falling. This is expected to support improved market sentiment in the short to medium term. Government initiatives, in particular Funding for Lending and the Help to Buy mortgage guarantee scheme, have fuelled this demand and will continue to do so in the short-term given that the Government has extended the latter to include not only new homes but owners of existing properties too.

The supply side of the equation, however, has not matched this sharp increase in demand. The number of properties for sale fell by 6.6% in January 2014 and has dropped by 17% since September 2013 whilst demand grew by 6.6% in March with supply increasing by just 1.9% (Source: Hometrack). The number of new buyer enquiries significantly outstrips the number of new instructions from sellers (Source: Halifax). This is not expected to change in the short-term and, whilst the house building industry is responding with increased output, it will not be capable of completely closing the gap, let alone making up the historic shortfall estimated at 1 million homes (Source: HBF Report, "Barker Ten years on").

Expectations for sales and prices remain positive for both the three and twelve month forecasts, according to the RICS's Residential Market Survey (March 2014), showing one of the highest recordings since 1998. There is also general agreement that this will continue well beyond 2014 and, potentially, throughout the period to 2018. Various industry commentators agree on the direction of the market with the property sector median forecast for all published indices showing 21.5% growth in house prices in the period to 2018. At the time of writing, however, there is evidence of a levelling off of activity although price momentum remains reasonably strong. This could simply be a cautious reaction to the Bank of England's warnings about the risks of the market 'over-heating', particularly in London and the South East, but it is more likely to be a result of the tightening of mortgage underwriting standards arising from the Mortgage Market Review as well as speculation regarding the timing and pace of interest rate rises.

It remains Annington's view that the private rental sector will continue to perform strongly. Property purchase affordability will continue to be an issue particularly in Greater London and the Home Counties, where renting from the private sector remains the only option for many low to middle income families.

STRATEGIC REPORT (continued)

OBJECTIVES AND STRATEGY

A series of subsidiaries has been established to hold residential properties with different commercial characteristics, each requiring slightly different management decisions to achieve their individual objectives. The Rentals Subgroup provides a number of offerings including letting properties to provide comparable evidence for market rents in key locations for the Homes Subgroup, letting properties on short leases to individuals or on bulk leases to organisations (such as universities, housing associations and local authorities) on longer term rental contracts with a view to making capital gains in the medium-term and bulk letting properties on long leases to the MoD in response for demand for units in locations not adequately serviced by the MoD's current housing provision.

Since the Homes Subgroup cannot influence which or how many properties are released by the MoD, the Rentals Subgroup was created to provide both diversification and a more stable business model in which workflow and resources could be more evenly managed. The Rentals Subgroup continues to seek appropriate opportunities to grow and to improve returns through actively managing tenancies and rental levels. It has the financial resources to acquire portfolios or bulk purchase new build properties in areas where it has identified a known need or where market improvements are anticipated. To date, the Rentals Subgroup has concentrated on acquiring houses in areas generally associated with Married Quarters Estate ("MQE") locations, rather than blocks of flats in city centre locations. There is currently no intention to change this strategy.

The portfolio is subject to ongoing review to ensure that the underlying assets are providing returns in accordance with the investment rationale. This review process seeks to identify the best investment return for the Group, considering options including continued rental and the potential for disposal.

OPERATIONS AND PERFORMANCE

Operations

The Rentals Subgroup now owns 1,518 (2013: 1,556) properties and manages a further 86 (2013: 75) properties. Following the establishment during the year of Annington Rentals (No. 8) Limited, to acquire 99 units from Annington Property Limited, there are now nine subsidiaries within the Rentals Subgroup, eight of which own properties, the other managing properties. Each portfolio has a different characteristic and is therefore subject to different management considerations. Strategic decisions, such as acquisitions, refurbishment programmes, letting criteria and disposals are all taken by the rentals management team. The day-to-day letting, billing, rent collection and maintenance activities are outsourced to Touchstone Corporate Property Services, who in turn use a network of local letting agents to arrange inspections and individual lettings. This structure works well for the Rentals Subgroup given the geographic spread of properties, and enables the in-house portfolio managers to maintain a strategic focus. The portfolio managers meet weekly to consider issues arising and maintain fortnightly meetings with the Touchstone Corporate Property Services team, in order to progress lettings and ensure appropriate action is taken with regards void units, arrears etc.

During the current year, operations have expanded through the transfer of 99 units from Annington Property Limited as part of the wider strategy at Waterbeach, Cambridgeshire. The strategic review of units within the portfolio for long-term returns has continued during the 2013/14 year, with 137 units sold by the Rentals Subgroup following such reviews. A plan to redevelop 45 units at Balham, London owned by Annington Rentals (No.4) Limited has been approved by the local planning authority and redevelopment and refurbishment work is underway to create a total of 74 apartments, including 4 flats available as affordable units.

The Rentals Subgroup continues to operate a mixed portfolio of rental units on Assured Short-hold Tenancies ("AST") and bulk leases. Bulk leasing to the MoD remains unchanged in the year and is likely to remain so until the MoD's long-term estate strategy becomes clear.

STRATEGIC REPORT (continued)

OPERATIONS AND PERFORMANCE (continued)

Performance

Gross rents have decreased to £15.1 million (2013: £15.7 million). Although rental operations have benefited from the transfer of 99 units from Annington Property Limited and the full year effect of 49 properties acquired in 2013, the sale of units (especially bulk lets) as well as voids resulting from the redevelopment at Balham has seen rental income fall £0.6 million (3.8%) this year. Rents have continued to be monitored and maintained at market levels on ASTs. Bulk lettings to the MoD (representing over one half of the properties) are at fixed rental values for the first five years of the lease.

During the year, 137 property disposals were made by the Rentals Subgroup (2013: 25). This resulted in income of £15.3 million (2013: £4.8 million) and gross profit of £0.3 million (2013: £0.4 million). However, with the uplift in sales activity, void levels within the portfolio have increased, as properties are often renovated and marketed in an empty state to achieve a greater capital yield.

£30.7 million was made available to Annington Homes Limited for Group debt service or investment purposes, through net rentals and sale proceeds, and cash released upon the refinancing of the RBS debt (see Financing section below).

FINANCING

On 24 December 2013, Annington Rentals (Holdings) Limited entered a £165 million Five Year Term and Revolving Facility Agreement ending in December 2018 with The Royal Bank of Scotland plc. This facility effectively replaced the facilities in place in Annington Rentals (Holdings) Limited (of up to £45 million) and Annington Rentals (No. 6) Limited and Annington Rentals (No. 7) Limited (of up to £105 million). Further details on the facilities are available in note 12.

FINANCIAL POSITION AND ACCOUNTING POLICIES

The accounting policies are stated in Note 1 to the accounts.

At 31 March 2014, the Company's total assets amounted to £289.7 million (2013: £165.4 million), with the investment properties underpinning this value located in England and Wales. The market value of these properties is reassessed annually.

On the same date, the Company's combined liabilities totalled £340.7 million (2013: £228.0 million), comprising intra-group loans with its immediate parent, Annington Homes Limited (note 11), and external debt financing (note 12). The Rentals Subgroup has entered into funding arrangements consistent with a residential investment portfolio with medium-term investment time horizons.

The Rentals Subgroup previously had two external loans, both with RBS. On 24 December 2013, a new £165 million Five Year Term Revolving Facility ending in December 2018 was secured, again with RBS, to replace the old facilities. The covenants attaching to both the old and new facilities have not been breached during the year or subsequently, with current the current look-forward review not forecasting any covenant breaches within the term of the loan.

STRATEGIC REPORT (continued)

KEY PERFORMANCE INDICATORS

The Company is a holding company and is reliant on its subsidiaries to generate adequate returns. The main key performance indicators considered appropriate for the Company and its subsidiaries are:

KPI	2013/2014	2012/2013	Basis of calculation
To manage costs within pre-defined targets.	(4.98)%	(1.58)%	To compare actual expenditure levels against predetermined forecasts, to ensure adequate control over expenditure. The KPI is measured as the percentage (overspend)/underspend from forecast.
To maintain void levels below 5.0%	3.90%	1.54%	To measure the amount of potential rent lost arising from properties being void as a percentage of total potential rent.

PRINCIPAL RISKS AND UNCERTAINTIES

The Company is financed by its immediate parent, Annington Homes Limited (note 11), and external debt financing (note 12). Servicing of the debt is reliant on rental income and low void periods being achieved by the wholly owned subsidiaries.

The table below outlines the principal risks and uncertainties:

Area of Potential Uncertainty	Risk	Strategy
Fluctuating interest rates.	The Rentals Subgroup has entered into medium term funding arrangements to fit with the medium-term investment strategy.	To counter the medium-term exposure to fluctuating interest rates, the Rentals Subgroup has fixed interest rates through to December 2018 by entering into facilities at a floating interest rate and simultaneously entering into interest rate swaps to fix the interest liability.
Changing demand for rental property.	A number of Rental Subgroup subsidiaries let residential property using assured shorthold tenancies. There is a risk of changing demand, which could affect either or both void and rental levels.	Management constantly reviews properties, which may become void in the short-term and decide what rental levels should be achieved on re-letting. Should it become uneconomic to retain such properties then options, including potential refurbishment and / or disposal are considered.
Changing demand for bulk residential rental properties.	Annington Rentals (No.4) Limited, Annington Rentals (No. 6) Limited and Annington Rentals (No. 7) Limited let blocks of properties to 'corporate' organisations. If the demand reduces then the relevant rental company could have a significant number of void units to deal with.	Annington Rentals (No.4) Limited lets blocks of property for periods of 3 – 5 years. In-house staff maintain regular contact with the 'tenant organisation' in order that any potential lease terminations are noted as early as possible, in order to facilitate timely consideration of options to re-let, refurbish and / or sell. With regards Annington Rentals (No. 6) Limited and Annington Rentals (No. 7) Limited lettings, each property is let on an individual lease for 10 years with a 5-year break. Again regular contact is maintained with the 'tenant organisation' to monitor demand and changing requirements.

STRATEGIC REPORT (continued)

OUTLOOK

At March 2014, the housing market was showing clear signs that a recovery from more than six years in recession was not only established but gathering momentum. There is now ample evidence of a market in solid recovery with all regions in the UK showing house price rises, a situation likely to continue through to 2018.

Data shows that price momentum remains strong at the national level although activity indicators are pointing to some moderation in the positive trend. While the growth in demand continues to outpace supply, the overarching picture is rather more balanced. Anecdotal evidence suggests the tightening in mortgage underwriting standards resulting from the introduction of the Mortgage Market Review is slowing the volume of transactions. Meanwhile, increased speculation regarding the timing and pace of interest rate rises, alongside heightened rhetoric from the Bank of England regarding the risks, is resulting in more buyer caution. There remains a potential that the removal of stimuli in the economy and housing market might trigger a fall in house prices in the mid-term.

The private rental market continues to grow. Private rents have increased over the last 12 months, with demand continuing to increase despite the upturn in house sales. Fears remain that young people will continue to find the housing market unaffordable and fears that a 'generation of renters' is being formed have not been allayed.

With this backdrop, the Rentals subgroup has plans in place to continue its investment programme. These plans focus on the recently incorporated Annington Rentals (No. 8) Limited, which acquired 99 properties from Annington Property Limited, and the development at Balham in Annington Rentals (No.4) Limited.

The programme of reviewing investment properties held within the Rentals subgroup continues on a rolling basis. Where properties are identified by management as being surplus to future requirements, they will be considered for sale and the funds raised used to reduce the Group's borrowings.

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

A P Chadd
Director
29 July 2014

REGISTERED OFFICE
1 James Street
London
W1U 1DR

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 March 2014.

DIRECTORS

The directors who served throughout the year were:

J C Hopkins
S Webber
A P Chadd
N P Vaughan

R A Luft served as company secretary throughout the year.

Qualifying third party indemnity provisions were in place for all directors of the Company for the current and preceding year.

DIVIDENDS

No dividend was proposed or paid in the year to 31 March 2014 (2013: nil).

FINANCIAL RISK MANAGEMENT

The Company is funded by its immediate parent, Annington Homes Limited (Note 11) and an external Loan facility (note 12). Please refer to Note 1 to the Financial Statements regarding this funding arrangement, as well as the Principal risks and Uncertainties section in the Strategic Report.

GOING CONCERN

After making enquiries the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Further details regarding the adoption of the going concern basis are to be found in Note 1 to the Financial Statements.

AUDITOR

Each of the persons who is a director at the date of approval of this annual report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditors and arrangements have been put in place for them to be reappointed as auditors in the absence of an Annual General Meeting.

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

A P Chadd
Director
29 July 2014

REGISTERED OFFICE

1 James Street
London
W1U 1DR

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual 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 elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the 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 United Kingdom 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 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 AUDITOR'S REPORT TO THE MEMBERS OF ANNINGTON RENTALS (HOLDINGS) LIMITED

We have audited the financial statements of Annington Rentals (Holdings) Limited for the year ended 31 March 2014 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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.

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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 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 financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2014 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where 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.

Emma Cox BA, ACA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
29 July 2014

PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2014

	Note	2014 £	2013 £
Administration expenses		(1,486,494)	(1,466,502)
OPERATING LOSS	2	(1,486,494)	(1,466,502)
LOSS ON ORDINARY ACTIVITIES BEFORE FINANCE CHARGES		(1,486,494)	(1,466,502)
Interest receivable and similar income	4	6,141,671	5,839,189
Interest payable and similar charges	5	(17,572,380)	(16,305,148)
Dividend received		6,300,000	-
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(6,617,203)	(11,932,461)
Tax on loss on ordinary activities	6	75,667	-
LOSS FOR THE FINANCIAL YEAR		(6,541,536)	(11,932,461)

All activities derive from continuing operations.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year ended 31 March 2014

	2014 £	2013 £
Loss for the financial year	(6,541,536)	(11,932,461)
Surplus on revaluation of investment in group undertakings	18,164,049	4,248,312
Total recognised gains/(losses) for the financial year	11,622,513	(7,684,149)

BALANCE SHEET
As of 31 March 2014

	Note	2014 £	2013 £
FIXED ASSETS			
Investments	7	115,797,165	97,633,115
CURRENT ASSETS			
Debtors			
Due within one year	8	1,474	129,958
Due after one year	8	166,959,653	65,666,380
Investments – short term deposits		2,500,000	-
Cash at bank and in hand	9	4,486,413	1,991,370
		173,947,540	67,787,708
CREDITORS: amounts falling due within one year	10	(4,295,370)	(3,251,282)
NET CURRENT ASSETS		169,652,170	64,536,426
TOTAL ASSETS LESS CURRENT LIABILITIES		285,449,335	162,169,541
CREDITORS: amounts falling due after more than one year	11	(336,407,030)	(224,749,749)
NET LIABILITIES		(50,957,695)	(62,580,208)
CAPITAL AND RESERVES			
Called up share capital	14	-	-
Warrants	15	-	-
Revaluation reserve	16	(4,202,843)	(22,366,892)
Profit and loss account	16	(46,754,852)	(40,213,316)
SHAREHOLDERS' DEFICIT	17	(50,957,695)	(62,580,208)

The financial statements of Annington Rentals (Holdings) Limited, registered number 3818321, were approved by the Board of Directors and authorised for issue on 29 July 2014.

Signed on behalf of the Board of Directors

A P Chadd

Director

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

1. ACCOUNTING POLICIES

The principal accounting policies are summarised below. They have been applied consistently throughout the year and preceding year.

Accounting convention

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets on a going concern basis, and in accordance with applicable United Kingdom accounting standards.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report and the Directors' Report which describe the financial position of the Company; its objectives, policies and process for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities.

The Company is funded by its immediate parent, Annington Homes Limited (Note 11) and an external Loan facility (Note 12) which requires three covenant tests to be maintained - Loan to Value, Gross Interest Coverage and Net Interest Coverage Ratios. On 24 December 2013, the Company entered a £165 million Five Year Term and Revolving Facility Agreement ending in December 2018 with The Royal Bank of Scotland plc, which requires three covenant tests to be maintained - Loan to Value, Gross Interest Coverage Ratio and Net Interest Coverage Ratio.

The Loan to Value ratio of 65% within the Company's facility has been met for the current year. The Gross and Net Interest Cover Ratios have been maintained within their limits. Given that the interest rate is mostly fixed, using interest rate swaps, there is not expected to be any breach of these covenants in the foreseeable future.

The Company has sought and received commitment for future support from Annington Homes Limited.

After making enquiries and having assessed the responses of the directors of the Company's parent Annington Homes Limited to their enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual report and accounts.

Group accounts

The Company has taken advantage of the exemption from preparing consolidated accounts afforded by Section 400 of the Companies Act 2006 because it is a wholly owned subsidiary of another company for which consolidated accounts are prepared.

Cash flow statement

The Company is a wholly owned subsidiary of Annington Limited and is included in the consolidated financial statements of Annington Limited which includes a consolidated cash flow statement and are publicly available.

The Company has therefore taken advantage of the exemption under Financial Reporting Standard No 1 (revised 1996) and has not prepared a cash flow statement.

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

1. ACCOUNTING POLICIES (continued)

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on timing differences, which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Borrowings and finance costs

Borrowings are carried at loan proceeds plus finance costs less amounts paid. Finance costs, which comprise interest and issue costs are allocated over the period of the borrowing to achieve a constant rate on the carrying amount.

FRS 29

The Company is a subsidiary of Annington Limited and has taken advantage of the exemption provided in Financial Reporting Standard No.29 "Financial Instruments: Disclosures", not to make disclosure of financial instruments that are disclosed in the consolidated financial statements.

Investments in subsidiary undertakings

The Company's investments in the shares of the subsidiary undertakings are stated at net asset value. Surpluses and deficits arising from changes in net asset value are taken to the revaluation reserve.

Provision for warrants

The value attributable to the shareholders in Annington Rentals (Holdings) Limited was restricted due to Nomura Investments (AH) Limited's holding of cash warrants in the Company. A provision was made, where necessary, to reflect the amount due to the warrant holders based on the cash settlement amount, being the excess of the open market value of the ordinary shares over the par value of the ordinary shares issued.

Derivative financial instruments

The Company uses derivative financial instruments to reduce exposure to interest rate movements. The Company does not hold or issue derivative financial instruments for speculative purposes.

The Company's derivative instruments are not designated as hedging instruments and are held on the balance sheet at fair value. Changes in the fair value are recognised in the profit and loss account as they arise. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

2. OPERATING LOSS

The auditors' remuneration was £13,700 (2013 - £10,000) for the audit of the Company's annual accounts, £2,000 (2013 - £2,400) for taxation compliance services and was borne by another group company, Annington Management Limited, in the current and preceding year.

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

The directors received no emoluments for their services to this company in the current and preceding year.

The Company had no employees of its own during the year (2013 - none). The cost of performing work for the Company is borne by another group company, Annington Management Limited, in the current and preceding year.

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

4. INTEREST RECEIVABLE AND SIMILAR INCOME

	2014 £	2013 £
Bank interest receivable	30,540	5,557
Interest receivable on intercompany balances	6,009,671	5,581,138
Fair value gain on interest rate swaps	101,460	252,494
	6,141,671	5,839,189

5. INTEREST PAYABLE AND SIMILAR CHARGES

	2014 £	2013 £
Interest payable on bank loan	2,690,416	2,200,096
Amortisation of issue costs	261,659	217,730
Issue costs written off	101,749	-
Interest payable on intercompany balances	14,493,350	13,871,346
Other finance charges	25,206	15,976
	17,572,380	16,305,148

6. TAX ON LOSS ON ORDINARY ACTIVITIES

	2014 £	2013 £
Current tax		
United Kingdom corporation tax at 23% (2013 - 24%)	(75,667)	-

The standard rate of current tax for the year, based on the UK standard rate of corporation tax is 23% (2013 - 24%). The current tax credit for the year and the previous year differs from the standard tax rate for the reasons set out in the following reconciliation:

	2014 £	2013 £
Loss on ordinary activities before tax	(6,617,203)	(11,932,461)
Tax on loss on ordinary activities at standard rate	(1,521,957)	(2,863,791)
Factors affecting credit for the year:		
Expenses not deductible for tax purposes	2,982,536	2,286,967
Non-taxable income	(2,282,344)	(60,598)
Group relief surrendered	821,765	637,422
Consideration received for consortium relief	(75,667)	
Total actual amount of current tax	(75,667)	-

The amount of tax losses carried forward at 31 March 2013 is £nil (2013 - £nil).

A deferred tax asset has not been recognised in respect of losses carried forward as there is insufficient evidence that the asset will be recovered. The amount of the asset not recognised is £nil (2013 - £nil).

From 1 April 2014, the headline rate of corporation tax reduced from 23% to 21%, and will be reduced further to 20% from 1 April 2015.

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

7. INVESTMENT IN GROUP UNDERTAKINGS

	2014 £	2013 £
Valuation		
At 1 April 2013	97,633,115	93,384,803
Additions	1	-
Revaluations	18,164,049	4,248,312
At 31 March 2014	115,797,165	97,633,115

During the year, the Company made an investment of £1 into Annington Rentals (No.8) Limited.

The historical cost of the investment in subsidiaries was £120,000,009 (2013 - £120,000,008).

The principal undertakings at 31 March 2014, which are wholly owned, are shown below:

Name of subsidiary undertakings	Country of incorporation	Principal activity
Annington Rentals Limited	Great Britain	Property investment
Annington Rentals (No.2) Limited	Great Britain	Property investment
Annington Rentals (No.3) Limited	Great Britain	Property investment
Annington Rentals (No.4) Limited	Great Britain	Property investment
Annington Rentals (No.5) Limited	Great Britain	Property investment
Annington Rentals (No.6) Limited	Great Britain	Property investment
Annington Rentals (No.7) Limited	Great Britain	Property investment
Annington Rentals (No.8) Limited	Great Britain	Property investment
Annington Rentals Management Limited	Great Britain	Real estate management

8. DEBTORS

	2014 £	2013 £
Due within one year		
Other debtors	294	1,998
Amounts due from group undertakings	1,180	127,960
	1,474	129,958
Due after more than one year		
Amounts due from group undertakings	166,959,653	65,666,380

Amounts due to the Company from group undertakings within one year include £1,180 (2013: £127,960) which are unsecured, interest free and have no fixed date of repayment.

£167.0 million (2013: £65.7 million) of loans are unsecured, interest bearing at 8.02% (2013: 8.02%) and have a fixed date of repayment of 31 March 2020 (2013: 31 March 2020).

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

9. CASH AT BANK

	2014 £	2013 £
Blocked and restricted cash	4,486,413	1,991,370

In compliance with the RBS funding arrangements and to act as a mechanism to reduce the bank's exposure to the Company, three (2013 – three) bank accounts exist to cover various aspects of the Company's operations. These are in the name of the Company and administered by RBS. These arrangements are considered temporary and funds will be released provided certain conditions are met. There are no penalties associated with these arrangements.

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2014 £	2013 £
Trade creditors	48,791	45,764
Amounts due to group undertakings	3,240,290	2,861,636
Accruals	1,006,289	343,882
	4,295,370	3,251,282

Amounts due by the Company to group undertakings are unsecured, interest free and have no fixed date of repayment.

11. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2014 £	2013 £
Bank loans (note 12)	151,464,192	41,725,345
Amounts due to group undertakings	183,421,283	182,192,409
Interest rate swap (notes 12,13)	1,521,555	831,995
	336,407,030	224,749,749

Amounts due by the Company to group undertakings include £183.4 million (2013: £182.2 million) loans which are unsecured, interest bearing at fixed rates of 8% (2013: 8%) and have a fixed date of repayment of 31 March 2020 (2013: 31 March 2020).

12. BANK LOANS

On 24 December 2013, the Company entered a £165 million Five Year Term and Revolving Facility Agreement ending in December 2018 with The Royal Bank of Scotland plc, which requires three covenant tests to be maintained - Loan to Value, Gross Interest Coverage Ratio and Net Interest Coverage Ratio. The Loan to Value ratio of 65% within the Company's facility has been met for the current year. The first drawdown made on 31 January 2014 was mainly used to settle the old £42 million loan in the Company, the £85.3 million loan outstanding in Annington Rentals (No.6) Limited and the £8.9 million loan outstanding in Annington Rentals (No.7) Limited. Unmatured SWAPS in Annington Rentals (No.6) Limited and Annington Rentals (No.7) Limited have been novated to the Company.

The Company previously held a Revolving Two and a Half Year Facility dated 16 February 2012 with The Royal Bank of Scotland plc enabling it to borrow up to a maximum of £45 million (2013 – £45 million) to July 2014 against residential properties held by certain of its subsidiaries (note 7) using a loan to value ratio of 55%.

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

12. BANK LOANS (continued)

	2014	Amortis- ation	Reval- uation	Issue Costs (Paid)/ Written Off	Debt Drawn/ (Repaid)/ Swap Transfer	2013
	£	£	£	£	£	£
Bank loans secured:						
RBS Plc – 2.5 year	-	172,906	-	101,749	(42,000,000)	41,725,345
RBS Plc – 5 year	151,464,192	90,760	-	(2,326,568)	153,700,000	-
Interest rate swaps	1,521,555	-	(101,460)	-	791,020	831,995
	152,985,747	263,666	(101,460)	(2,224,819)	112,491,020	42,557,340

13. FINANCIAL LIABILITIES AND INSTRUMENTS

	31 March 2014 Par value of debt	Balance sheet value	Fair value
	£	£	£
Bank loan (note 12)	153,700,000	151,464,192	153,700,000
Interest rate swaps (note 11)			
Interest rate swaps with total nominal of £123.0 million (pay fixed interest at 1.9% (average) and receive floating under agreements to 2016/18)	-	2,112,730	2,112,730
Interest rate swaps with total nominal of £30.7 million (at 1.9% (average) strike price under agreements to 2016/18)	-	(591,175)	(591,175)
	-	1,521,555	1,521,555

	31 March 2013 Par value of debt	Balance sheet value	Fair value
	£	£	£
Bank loan (note 12)	42,000,000	41,725,345	42,000,000
Interest rate swaps			
Interest rate swap with total nominal of £30.0 million (pay fixed interest at 2.59% and receive floating under an agreement to 2014)	-	832,029	832,029
Interest rate swaps with total nominal of £15.0 million (at 2.59% strike price under an agreement to 2014)	-	(34)	(34)
	-	831,995	831,995

The bank loan balance sheet value includes unamortised costs of £2,235,808 (2013: £274,665).

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

14. CALLED UP SHARE CAPITAL

	2014 £	2013 £
Called up, allotted and fully paid		
1 ordinary share of 1p	-	-

15. WARRANTS

	2014 £	2013 £
At 1 April 2013	-	1,000
Transfer upon exercising warrants	-	(1,000)
At 31 March 2014	-	-

There were 99,999 warrants in force in relation to the Company's shares, exercisable at a strike price of £0.01 per warrant. The warrants were for cash settlement only and upon exercise of the warrants, the cash settlement amount of a warrant shall be the price which was in excess (if any) of the open market value of an ordinary share over the cost to the subscriber at par for the ordinary share over which the warrant was being exercised.

The warrants were issued to Nomura International plc in a prior period. On 27 March 2002, Nomura International plc transferred the right under these warrants to Nomura Investments (AH) Limited, a wholly owned subsidiary of Nomura International plc. In prior years, no provision for warrants was recorded as the net shareholders deficit in the Group was such that the open market value of the Group had been determined to be a nominal value. On 13 December 2012, cash warrants were exercised by Nomura Investments (AH) Limited.

16. MOVEMENTS IN RESERVES

	Profit and loss account £	Revaluation reserve £	Total £
At 1 April 2013	(40,213,316)	(22,366,892)	(62,580,208)
Loss for the financial year	(6,541,536)	-	(6,541,536)
Revaluation of investments	-	18,164,049	18,164,049
At 31 March 2014	(46,754,852)	(4,202,843)	(50,957,695)

17. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' DEFICIT

	2014 £	2013 £
Loss for the financial year	(6,541,536)	(11,932,461)
Movement in revaluation reserve	18,164,049	4,248,312
Net decrease/(increase) in shareholders' deficit	11,622,513	(7,684,149)
Opening shareholders' deficit	(62,580,208)	(54,896,059)
Closing shareholders' deficit	(50,957,695)	(62,580,208)

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

18. RELATED PARTY TRANSACTIONS

The Company is a wholly owned subsidiary of Annington Limited and is included in the consolidated financial statements of Annington Limited. The Company has taken advantage of the exemption provided in Financial Reporting Standard 8 "Related Party Disclosures" not to make disclosure of transactions with other entities that are part of the same group, on the basis that all subsidiary undertakings party to the transactions are wholly owned by a member of the Group.

19. CONTROLLING PARTY

Annington Homes Limited, a company incorporated in Great Britain, is the immediate parent company.

The directors regard Terra Firma Holdings Limited, a company registered in Guernsey, as the ultimate parent entity. The ultimate controlling party is Guy Hands.

Annington Limited is the parent company of the largest and smallest group of which the Company is a member and for which group financial statements are drawn up. Group accounts for Annington Limited are available on request from the registered office at 1 James Street, London W1U 1DR.