Company Registration No. 05809432

ANNINGTON RENTALS (NO. 5) LIMITED

Annual Report and Financial Statements

For the year ended 31 March 2018

ANNINGTON RENTALS (NO. 5) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

CONTENTS

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 March 2018. The directors' report has been prepared in accordance with the provisions applicable to companies entitled to the small companies exemption under the Companies Act 2006. A strategic report has not been prepared in accordance with the exemption entitled to small companies under s414 of the Companies Act 2006.

DIRECTORS

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

A P Chadd

J C Hopkins

A R J Needham

N P Vaughan

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

FUTURE DEVELOPMENTS

Future developments and other factors not under the control of the Company may impact on the ongoing operations of the business. However, the directors expect the business to continue, for the foreseeable future, in a manner consistent with its historical operations of letting its private rental portfolio.

In May 2018, the Company completed the purchase of 104 homes from the Mill Group's Oak Portfolio for £23.5 million, including transaction costs. This will serve to expand the Company's current rental operations.

DIVIDEND

A dividend of £1.3 million has been declared during the year ended 31 March 2018 (2017: £5.0 million).

PRINCIPAL ACTIVITES

The Company is a subsidiary of Annington Rentals (Holdings) Limited, which is part of the Annington Limited Group. Annington Rentals (Holdings) Limited and its subsidiaries were established with the purpose of creating a series of residential investment portfolios. These portfolios are held with a view to achieving long-term capital growth whilst generating sufficient short-term rental income to cover operating costs. The Company continues to look for opportunities to maximise returns through planned acquisitions and strategic sales.

FINANCIAL RISK MANAGEMENT

The Company has no external debt and is able to draw funds on another group company if necessary. Please refer to Note 2 to the financial statements regarding this arrangement.

GOING CONCERN

After making enquiries the directors have a reasonable expectation that the Company has 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 2 to the financial statements.

DIRECTORS' REPORT (continued)

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 auditor and arrangements have been put in place for them to be reappointed as auditor 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
30 August 2018

REGISTERED OFFICE
1 James Street
London, United Kingdom
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), including FRS 101 "Reduced Disclosure Framework". 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 judgments and accounting estimates that are reasonable and prudent;
- 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 MEMBER OF ANNINGTON RENTALS (NO. 5) LIMITED

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Annington Rentals (No.5) Limited (the 'Company') which comprise:

- the income statement;
- the balance sheet;
- the statement of changes in equity; and
- the related Notes 1 to 17.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

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

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF ANNINGTON RENTALS (NO. 5) LIMITED (continued)

Responsibilities of 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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters 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
- the directors were not entitled to take advantage of the small companies' exemption from the requirement to prepare a strategic report or in preparing the directors' report; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Richard Howe FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

30 August 2018

INCOME STATEMENT
For the year ended 31 March 2018

	Note	2018 £	2017 £
Property rental income	4	61,207	194,426
Property operating expenses		(62,141)	(117,849)
Net rental (expense)/income	4	(934)	76,577
(Loss)/profit on disposal of investment properties	6	(74,799)	42,718
Unrealised property revaluation (losses)/gains	9	(112,960)	95,650
Operating (loss)/profit	5	(188,693)	214,945
(Loss)/profit before taxation		(188,693)	214,945
Taxation	7	28,149	126,158
(Loss)/profit for the year after taxation		(160,544)	341,103
(Loss)/profit attributable to shareholder		(160,544)	341,103

There were no items of comprehensive income or expense and therefore the loss for the year reflects the Company's total comprehensive loss.

BALANCE SHEET
At 31 March 2018

	Note	2018 £	2017 £
Non-current assets			
Investment properties	8	1,491,600	2,265,490
Deferred tax	7	3,444	-
		1,495,044	2,265,490
Current assets			
Receivables	9	69,152	127,731
Cash and cash equivalents	10	4,726	-
Investment properties held for sale	8	365,000	1,017,920
		438,878	1,145,651
Total assets		1,933,922	3,411,141
Current liabilities			
Trade and other payables	11	(8,160)	(130)
Net current assets		430,717	1,145,521
Non-current liabilities			
Deferred tax	7	-	(24,705)
Total liabilities		(8,160)	(24,835)
Net assets		1,925,762	3,386,306
Capital and reserves			
Share capital	12	1	1
Capital reserve		1,200,000	2,500,000
Retained earnings	13	725,761	886,305
Total equity		1,925,762	3,386,306

The accompanying notes (1 to 17) should be read in conjunction with these financial statements.

The financial statements of Annington Rentals (No. 5) Limited, registered number 05809432, were approved by the Board of Directors and authorised for issue on 30 August 2018.

Signed on behalf of the Board of Directors

A P Chadd
Director

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 March 2018

	Note	Share capital £	Capital reserve £	Retained earnings £	Total equity £
At 1 April 2016		1	7,500,000	545,202	8,045,203
Profit attributable to shareholder, being total comprehensive income for the year		-	-	341.103	341.103
Dividends paid	14	-	(5,000,000)	-	(5,000,000)
Balance at 31 March 2017		1	2,500,000	886,305	3,386,306
Loss attributable to shareholder, being total comprehensive income for the year		-	-	(160,544)	(160,544)
Dividends paid	14	-	(1,300,000)	-	(1,300,000)
Balance at 31 March 2018		1	1,200,000	725,761	1,925,762

The capital reserve relates to contributions from the parent company, Annington Rentals (Holdings) Limited.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2018

1. CORPORATE INFORMATION

Annington Rentals (No. 5) Limited ("the Company") is a company incorporated in the United Kingdom under the Companies Act. The Company is a private company limited by shares and is registered in England and Wales. The address of its registered office is 1 James Street, London W1U 1DR. Information on the Company's ultimate parent is presented in Note 17.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS 101"), and with the Companies Act 2006.

The financial statements are presented in pound sterling (£). They have been prepared under the historical cost basis except for the modification to a fair value basis for investment properties.

Exemptions for qualifying entities under FRS 101

FRS 101 permits a qualifying entity certain disclosure exemptions, subject to certain conditions, which have been applied by the Company. Therefore these financial statements do not include:

- certain comparative information as otherwise required by EU-adopted International Financial Reporting Standards, including an opening Statement of Financial Position;
- certain disclosures regarding the Company's capital;
- a statement of cash flows;
- certain disclosures in respect of financial instruments;
- amendments to IFRS and new interpretations that are mandatorily effective during the current year;
- the effect of future accounting standards not yet adopted; and
- disclosure of related party transactions with wholly-owned members of the Group.

The above disclosure exemptions have been adopted because equivalent disclosures are included in the consolidated financial statements of Annington Limited, which are publicly available.

Going concern

The Company has no external debt and is able to draw funds via a loan from Annington Rentals (Holdings) Limited that is, since July 2017, ultimately funded by Annington Funding plc ("AFP"). In early July 2017, AFP issued five tranches of corporate, unsecured bonds totalling £3 billion and drew down a term loan totalling £400 million, also unsecured. A £300 million five-year revolving credit facility has been made available to AFP, which is currently undrawn. The Group's forecasts do not indicate any of the covenants associated with the new debt will be breached in the foreseeable future.

After making enquiries and having assessed the responses of the directors of the Company's parent Annington Rentals (Holdings) 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 financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2018 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Early adoption of IFRS 9

The Company has early adopted IFRS 9 *Financial Instruments* as of 1 April 2017. IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement.* As a result of the early adoption of IFRS 9, the Company has changed its accounting policy for financial assets retrospectively, in line with the transitional provisions of the standard. The applicable changes are:

Classification and measurement of financial assets – The Company determines the classification of financial assets at initial recognition based on its business model for managing the financial assets and their contractual cash flow characteristics. Previously, the classification was based on the characteristics of the financial assets. Management have performed an assessment of its financial assets at transition date and have concluded that there is no change in the classification of its financial assets, and that they will continue being accounted for under the amortised cost model. Details on the recognition and measurement of financial assets can be found in the individual notes of each category of financial asset.

Impairment – The standard introduces a forward-looking expected credit loss model for determining impairments of financial assets. The Company recognises a loss allowance for expected credit losses on financial assets that are measured at amortised cost. The loss allowance is measured at an amount equal to the lifetime expected credit losses. Previously, the Company used a specific identification method in order to estimate impairments of trade receivables. The Company has taken advantage of the transitional provisions in IFRS 9 and has opted not to restate prior periods and recognise the effects of retrospective application to opening retained earnings for the year ended 31 March 2018. The change in policy resulted in insignificant changes to the balance sheet and income statement. The impact on opening retained earnings is assessed as £nil.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Valuation of investment properties
The property portfolio, which is carried in the balance sheet at fair value, is valued annually by professionally qualified external valuers. The valuation of the investment properties portfolio is inherently subjective as it utilises, among other factors, comparable sales data and the expected future rental revenues. The valuer exercises professional judgement when determining what market observations are used in the assessment of fair value. If any assumptions made in the valuation prove to be inaccurate, this may mean that the value of the investment properties portfolio differs from the valuation, which could have a material effect on the financial position of the Company. Investment property valuations are a key source of estimation uncertainty for the Company.

Information about the valuation techniques and inputs used in determining the fair value of investment properties is disclosed in Note 8.

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

The directors received no emoluments for their services to the Company in the current or preceding year.

The Company had no employees of its own during the year (2017: none). The cost of performing work for the Company is borne by another group company, Annington Management Limited.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2018 (continued)

4. PROPERTY AND NET RENTAL INCOME

ACCOUNTING POLICY

Property rental income - Revenue recognition

Rental income from investment properties is accounted for on an accruals basis and recognised on a straight line basis over the operating lease term. Rent increases arising from rent reviews not able to be determined at the outset of the lease are taken into account when such reviews have been settled with the tenants. Lease incentives and costs associated with entering into tenant leases are amortised over the lease term.

	2018	2017
	£	£
Property rental income	61,207	194,426

Net rental income

Net rental income comprises property rental income less property operating expenses. Property operating expenses are expensed as incurred and property operating expenditure not recovered from tenants is charged to the income statement.

The Company generates substantially all net rental income, profits before taxation and net assets from residential property investment in England and Wales.

5. OPERATING PROFIT

ACCOUNTING POLICY

Operating profit is stated before finance income and finance costs.

The auditor's remuneration was £5,600 (2017: £5,900) for the audit of the Company's annual financial statements and was borne by another group company in the current and preceding year.

In accordance with SI 2008/489 the Company has not disclosed the fees payable to the Company's auditor for 'Other services' as this information is included in the consolidated financial statements of Annington Limited.

6. (LOSS)/PROFIT ON DISPOSAL OF INVESTMENT PROPERTIES

ACCOUNTING POLICY

Gains or losses on the sale of properties are accounted for on a legal completion of contract basis. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the income statement in the period of derecognition.

	2018	2017
	£	£
Sales proceeds	1,275,000	5,061,440
Selling costs	(35,949)	(86,732)
Net disposal proceeds	1,239,051	4,974,708
Carrying value of properties disposed	(1,313,850)	(4,931,990)
	(74,799)	42,718

During the year disposals of 4 properties (2017: 29 properties) were completed.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2018 (continued)

7. TAXATION

ACCOUNTING POLICY

The taxation expense for the year comprises current and deferred tax. Tax is recognised in the income statement.

Current tax

Current tax is measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted at the balance sheet date in the countries where the Company operates and generates taxable income. Taxable profit differs from profit before tax as reported in the income statement because it excludes some items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the balance sheet date.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset only if:

- the Company has a legally enforceable right to set off current tax assets against current tax liabilities; and
- the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously.

	2018 £	2017 £
Current tax		
United Kingdom corporation tax at 19% (2017: 20%)	-	-
Deferred tax		
Deferred taxation: origination and reversal of temporary differences	(28,149)	(117,777)
Effect of change in tax rate	-	(8,381)
Total deferred tax	(28,149)	(126,158)
Total taxation for the year	(28,149)	(126,158)

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2018 (continued)

7. TAXATION (continued)

The standard rate of current tax for the year, based on the UK standard rate of corporation tax is 19% (2017: 20%). The current tax for the year and the previous year differs from the standard tax rate for the reasons set out in the following reconciliation:

	2018 £	2017 £
(Loss)/profit before tax	(188,693)	214,945
Tax on (loss)/profit at standard rate	(35,852)	42,989
Factors affecting the current tax for the year:		
Group relief claimed	(889)	(17,525)
Notional transfer to group company	(6,650)	128
Disposal of investments	(29,057)	(96,316)
Effect of indexation	40,973	(46,392)
Effect of tax rate differential between current and deferred tax	2,259	(2,870)
Expenses not deductible for tax purposes	1,067	2,209
Effect of change in tax rate	-	(8,381)
Total taxation for the year	(28,149)	(126,158)

From 1 April 2017, the headline rate of corporation tax was reduced from 20% to 19%, and will be further reduce to 17% from 1 April 2020, with these rates substantively enacted at the current balance sheet date.

Deferred tax

The movement in deferred tax is as set out below:

	2018 £	2017 £
At 1 April	24,705	150,863
Credit to income statement	(28,149)	(117,777)
Effect of change in tax rate	-	(8,381)
At 31 March	(3,444)	24,705

Deferred tax balance relates to temporary differences between the tax base and the carrying value of investment properties. Deferred tax balances at 31 March 2018 are measured at 17% (2017: 17%).

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2018 (continued)

8. INVESTMENT PROPERTIES

ACCOUNTING POLICY

Investment properties comprise property that is held to earn rentals or for capital appreciation or both. Investment properties are measured initially at cost, including transaction costs. Transaction costs include transfer taxes and other professional fees. Subsequent to initial recognition, investment properties are recognised at fair value at balance sheet date. This is determined annually by professionally qualified external valuers on a portfolio basis such that individual property calculations are not performed. Changes in fair value are included in the income statement for the period in which they arise. No depreciation is provided in respect of investment properties.

Where specific investment properties are expected to sell within the next 12 months, their fair value is classified as held for sale within current assets.

Investment properties are transferred to investment properties held for sale if their carrying amount is intended to be recovered through a sales transaction rather than continuing use. This condition is regarded as met if the sale is highly probable, the property is available for immediate sale in its present condition, the property is being actively marketed, and management is committed to the sale, which is expected to qualify as a completed sale within 12 months from the date of classification.

Investment properties held for sale continue to be measured in accordance with the accounting policy for investment properties.

2018	Investment Properties £	Investment properties held for sale £	Total £
Valuation			
Fair value at 1 April	2,265,490	1,017,920	3,283,410
Disposals	(295,930)	(1,017,920)	(1,313,850)
Transfer to investment properties held for sale	(392,920)	392,920	-
Unrealised property revaluations losses	(85,040)	(27,920)	(112,960)
Total fair value at 31 March	1,491,600	365,000	1,856,600

Properties would have been included on an historical cost basis at £1,510,071 (2017: £2,521,852).

As at 31 March 2018 there were 1 (2017: 3) investment properties classified as held for sale, with disposal expected within the next 12 months.

	2018 £	2017 £
The net book value of investment properties and investment properties held for sale comprises:		
Long leasehold	1,856,600	3,283,410
	1,856,600	3,283,410

Direct property operating expenses relating to properties that generated income during the year amounted to £58,708, while those relating to properties that did not generate income during the year amounted to £3,433.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2018 (continued)

8. INVESTMENT PROPERTIES (continued)

Allsop LLP ("Allsop") has prepared a market valuation of the investment properties in alignment with the requirements of IFRS 13, *Fair Value Measurement*. This is a 'Regulated Purpose Valuation'. Allsop has provided annual valuations of the portfolio since 1999.

The valuer's opinion was derived on a portfolio basis, primarily using comparable recent market transactions on arm's length terms. The valuation was carried out by an independent valuer in accordance with the requirements of the RICS Valuation Standards (sixth edition, as subsequently amended), except where it is not, in practical terms, feasible to comply due to the large number of properties involved. Allsop has confirmed that in relation to their most recent financial year, the proportion of their total fee income arising from the Company was less than 5%, which may be regarded as minimal.

A vacant possession market comparison valuation technique has been applied to investment properties. The valuer was given a representative sample of properties under assured shorthold and other bulk tenancies to value thus ensuring the whole portfolio is externally valued every five years. The valuer was instructed to value such similar properties. The valuation of these properties was then extrapolated to provide the movement for the whole short-term rentals portfolio. The basis of the extrapolation technique is the movement of the market value of the externally sampled properties, blended with recent comparable vacant possession values split by geographic region. Where no such evidence is available, due to the lack of recent comparable transactions, the value has been determined with consideration for the relevant Halifax and Nationwide regional indices and historical performance in relation to these indices in the current period.

Assumptions and valuation models used by the valuers are typically market related, such as yield and discount rates. These are based on their professional judgement and market observation.

The fair value measurement hierarchy level for all investment properties as at 31 March 2018 was Level 3 significant unobservable inputs (2017: Level 3). There were no transfers between the levels of the fair value hierarchy during the current or prior year.

This fair value measurement hierarchy level is specified in accordance with IFRS 13 'Fair Value Measurement'. The levels are defined below:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Investment property valuations are inherently subjective, depending on many factors, including property location, expected future net rental value, market yields and comparable. In valuing the properties, the following assumption have been adopted and incorporated into the valuation model.

2018	Fair value £	Unobservable inputs	Range
Assured shorthold & other bulk tenancies			
Fair value	1,856,600		
Valuation technique		Vacant possession market comparison	
		Blended HPI (%)	(1.8)% - 5.9%
		Rental (premium)/discount rates (%)	(2.4)% - 12.1%
Fair value at 31 March 2018	1,856,600		

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2018 (continued)

8. INVESTMENT PROPERTIES (continued)

2017	Fair value £	Unobservable inputs	Range
Assured shorthold & other bulk tenancies			
Fair value	3,283,410		
Valuation technique		Vacant possession market comparison	
		Blended HPI (%)	1.1% - 7.6%
		Rental (premium)/discount rates (%)	(2.5)% - 12.5%
Fair value at 31 March 2017	3,283,410		

All other factors remaining constant, the valuation would increase with an increase in blended House Price Index ("HPI"), while increases in discount rates would result in a fall in the valuation and vice versa. There are interrelationships between unobservable inputs as they are determined by market conditions, and so the valuation movement in any one period depends on the balance between them. If these inputs move in opposite directions, (e.g. blended HPI increases and discount rates decrease), valuation movements can be amplified whereas if they move in the same direction they may offset reducing the overall net valuation movement.

Operating lease arrangements

At 31 March 2018, the Company had contracted with tenants for the following future minimum lease payments:

	2018 £	2017 £
Within one year	13,966	19,103
	13,966	19,103

9. RECEIVABLES

ACCOUNTING POLICY

Receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method less any impairment.

	2018 £	2017 £
Amounts falling due within one year		
Trade receivables	3	181
Prepayments	10,902	16,618
Amounts owed by group undertakings	58,247	110,932
	69,152	127,731

Amounts owed by group undertakings are unsecured, do not bear interest and do not have fixed dates of repayment.

The carrying value of receivables approximates the fair value.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2018 (continued)

10. CASH AND CASH EQUIVALENTS

ACCOUNTING POLICY

Cash and cash equivalents comprise cash at bank. Cash and cash equivalents are limited to instruments with a maturity of less than three months.

	2018 £	2017 £
Cash at bank	4,726	-

11. TRADE AND OTHER PAYABLES

ACCOUNTING POLICY

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

	2018 £	2017 £
Trade payables	8,160	130
	8,160	130

The carrying value of trade and other payables approximates the fair value.

12. SHARE CAPITAL

	2018 £	2017 £
Authorised, issued and fully paid		
1 ordinary share of £1	1	1

1 ordinary share of £1 was issued at par on incorporation.

13. RETAINED EARNINGS

Retained earnings include all current and prior year retained profits and losses. The components of this are:

	2018 £	2017 £
Distributable earnings	378,333	151,997
Non-distributable earnings	347,428	734,308
	725,761	886,305

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2018 (continued)

14. DIVIDENDS

	2018	2017
	£	£
Dividends declared and paid	1,300,000	5,000,000
Dividends per share	1,300,000	5,000,000

15. RELATED PARTY DISCLOSURES

The Company is a wholly owned subsidiary within the Annington Limited Group and is included in the consolidated financial statements of Annington Limited. The Company has taken advantage of the exemption provided by paragraph 8(k) of FRS 101 not to make disclosure of transactions with other wholly-owned entities that are part of the same group.

16. POST BALANCE SHEET EVENTS

In May 2018, the Company completed the purchase of 104 homes from the Mill Group's Oak Portfolio for £23.5 million, including transaction costs. This will serve to expand the Company's current rental operations.

17. CONTROLLING PARTY

Annington Rentals (Holdings) Limited, a company incorporated in the United Kingdom, 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. The Annual Report and Financial Statements for Annington Limited are available on request from the registered office at 1 James Street, London W1U 1DR.