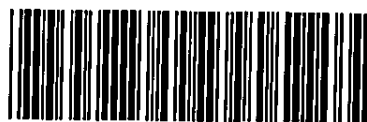


Annual Report and Financial Statements

2009

Period to 31 December 2009

TUESDAY



\*A7C9PLGS\*

A05

06/07/2010

113

COMPANIES HOUSE

**MILTON HOMES LIMITED**

Company Registration No 06037454

# **MILTON HOMES LIMITED**

## **CONTENTS**

---

<b>Officers and Professional Advisers</b>	<b>2</b>
<b>Directors' Report:</b>	<b>3</b>
- Financial and Risk Review	12
- Corporate Governance	20
- Corporate Social Responsibility	22
<b>Independent Auditors' Report to the Members</b>	<b>24</b>
<b>Consolidated Statement of comprehensive income</b>	<b>26</b>
<b>Consolidated Statement of Changes in Equity</b>	<b>27</b>
<b>Company Statement of Changes in Equity</b>	<b>27</b>
<b>Consolidated Balance Sheet</b>	<b>28</b>
<b>Company Balance Sheet</b>	<b>30</b>
<b>Consolidated Cash Flow Statement</b>	<b>31</b>
<b>Company Cash Flow Statement</b>	<b>32</b>
<b>Notes to the Financial Statements</b>	<b>34</b>

---

**MILTON HOMES LIMITED**  
**OFFICERS AND PROFESSIONAL ADVISERS**

---

<b><i>Directors</i></b>	CR Rumsey – Managing Director CB Wagman – Non-executive Chairman DJW Young – Chief Executive
<b><i>Secretary</i></b>	DV3 Administration UK 1 Limited 6th Floor Lansdowne House Berkeley Square London W1J 6ER
<b><i>Registered office</i></b>	Bryan Cave LLP 88 Wood Street London EC2V 7AJ
<b><i>Head office and principal place of business</i></b>	Newcombe House 45 Notting Hill Gate London W11 3LQ
<b><i>Auditors</i></b>	Ernst & Young LLP 1 More London Place London SE1 2AF
<b><i>Legal advisers</i></b>	SJ Berwin LLP 10 Queen Street London EC4R 1BE
<b><i>Valuer</i></b>	Allsop LLP 33 Park Place Leeds LS1 2RY

# MILTON HOMES LIMITED

## OFFICERS AND PROFESSIONAL ADVISERS

---

The Directors present the Annual Report, together with the financial statements and auditors' report of Milton Homes Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2009

### Principal activities

The principal activity of the Group is to own and manage residential property acquired through home reversion plans. The Group plans to maintain and develop a significant long-term exposure to the UK residential property market initially as a provider of both traditional and innovative home reversion plans. The Group's subsidiaries, Living Plus Limited and Retirement Plus Property Plans Limited, are authorised by The Financial Services Authority ("FSA") as home reversion plan providers and Retirement Plus Property Plans Limited is authorised as an arranger and administrator of home reversion plans.

The Group invests in home reversions arranged by FSA authorised intermediaries and also buys equity release assets in the secondary market.

### Results for the financial year

The financial statements show results for the Group for the year as follows

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Income	<u>7,563</u>	<u>(16,961)</u>
Profit / (Loss) before tax	435	(27,377)
Tax credit for the period	<u>-</u>	<u>-</u>
Profit / (Loss) for the financial period, attributable to equity shareholders	<u>435</u>	<u>(27,377)</u>

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2009 (2008: £nil).

### Business review and future developments

The Group has managed its business activities in the face of a fluctuating property market and extremely challenging lending conditions. In common with its peer group, the unrealised gain on revaluation of the Group's portfolio of reversionary interests in investment property dominates an assessment of current year financial performance and comparison with the prior financial period.

£22,640,000 of the £27,812,000 increase in the pre-tax profit for the financial period is attributable to unrealised revaluation gains with the current year unrealised revaluation gain of £4,486,000, attributable broadly in equal measure to both an increase in investment yields utilised by the independent valuer Allsop and a rise in the vacant possession values of the underlying residential properties, replacing the £18,154,000 unrealised revaluation loss recognised in 2008.

## MILTON HOMES LIMITED

### OFFICERS AND PROFESSIONAL ADVISERS

---

#### **Business review and future developments (continued)**

Profits on disposal of reversionary interests in property are £82,000 higher than in the prior financial period, and net sales proceeds of £7,837,000 are significantly higher than those generated in the 12 months to 31 December 2008 (£6,845,000), when the property market was significantly more benign. Under IFRS profits on disposal are calculated as net sales proceeds less the carrying value of the Group's beneficial interest in the properties determined with reference to the most recent valuation. On a historical costs basis, profits arising from the disposal of the 61 properties sold during the year represented 31% of original acquisition cost, consistent with the acquisition of the Group's portfolio of reversionary interests in investment property over a number of years at a significant discount to vacant possession values at the time of acquisition.

Other income has increased by £1,806,000. This is mainly due to a £719,000 increase in unrealised Equity Transfer Rate ("ETR") income and an additional £1,176,000 profit on the sale of the Group's 4% investment in the AIM-listed Sovereign Reversions plc. The increase in ETR income reflects the fact that the Group acquired Retirement Plus Limited, together with its subsidiary, Retirement Plus Property Plans Limited (together "Retirement Plus") on the 21 November 2007. On a like-for-like basis, ETR income increased by £627,000 in the year versus the 12 months ended 31 December 2008.

Net interest expense has decreased by £2,460,000, consistent with the lower LIBOR interest rates which apply to the new Royal Bank of Scotland loan of £68,000,000.

The Directors believe that the Group's strong brands, scaleable infrastructure and established relationships with key intermediaries position it well to enjoy further significant growth once some measure of liquidity returns to the credit markets.

Details of the principal risks and uncertainties facing the Group can be found in the Financial and Risk Review on pages 12 to 19.

#### **Investment portfolio**

Consistent with its objective of developing and maintaining a significant long-term exposure to the UK residential property market, the Group will continue to seek to grow, both organically and through acquisition, its portfolio of home reversion plans which provide an efficient exposure to the UK housing market.

With the focus, in particular in the second half of the year, on cash conservation, there has been a conscious effort to decrease the number and value of home reversion plan originations to nil for the second half of the year. During the year, originations amounted to 34 by number (2008: 219) and £3,434,000 by value (2008: £18,739,000), representing 16% and 18%, respectively, of the comparable totals for the period ended 31 December 2008.

## **MILTON HOMES LIMITED**

### **OFFICERS AND PROFESSIONAL ADVISERS**

---

#### **Investment portfolio (continued)**

When acquiring reversionary interests in investment property during the year the Group has endeavoured to reduce the property risk to which it is exposed in the current falling property market by continuing to invest in higher-quality affordable housing stock and by maintaining its regional diversification. The regional and property type analyses of the Group's portfolio of reversionary interests in investment property on the following page show that over the last 12-24 months the Group has reduced its relative exposure to flats by 3% and has marginally broadened the regional distribution of its portfolio.

The Directors believe that this strategy has satisfied the somewhat conflicting objectives of conserving cash whilst maintaining the business presence of the Group.

The Group's reversionary interests in investment property have been acquired at a significant discount to vacant possession value at the time of acquisition. The pre-tax reversionary surplus of the Group's investment property portfolio (ie the difference between current vacant possession values and investment values determined by Allsop) as a percentage of investment value has remained virtually static at 43% or, in absolute terms, £39,525,000 (2008: £41,252,000) indicative of the level of profits to be expected from future property disposals.

The Group seeks to maintain a high-quality and well-diversified portfolio. In order to reduce portfolio risk, the Group aims to

- minimise its exposure to adverse regional property price cycles by holding a geographically well-diversified portfolio of reversionary interests in investment property,
- invest primarily in reversionary interests where the underlying properties are houses and bungalows and less so flats, as the Directors believe the valuations of the latter are more adversely impacted by an economic downturn,
- maintain a demographically well-balanced portfolio of reversionary interests so that there is a constant and smooth pattern of realisations, and
- reduce its concentration risk by restricting the investment in any one reversionary interest to less than 2% of the total portfolio.

**MILTON HOMES LIMITED**

**OFFICERS AND PROFESSIONAL ADVISERS**

**Investment portfolio (continued)**

The tables below show the distribution of the investment value of the Group's reversionary interests in investment property by region and property type

<i><u>Region</u></i>	<b>31 December 2009</b>			<b>2008</b>
	<u>Living Plus</u>	Retirement	<b>Weighted</b>	Weighted
	%	Plus	average	average
		%	%	%
East Anglia	3	4	3	4
East Midlands	5	2	4	4
Greater London	10	13	11	11
North	2	1	2	2
North West	7	11	8	8
Scotland	-	2	1	1
South East	35	26	32	31
South West	18	22	19	19
Wales	4	6	5	5
West Midlands	9	9	9	9
Yorkshire	7	4	6	6
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

<i><u>Property type</u></i>	<u>Living Plus</u>	Retirement	<b>Weighted</b>	Weighted
	%	Plus	average	average
		%	%	%
House	60	65	61	61
Bungalow	24	26	25	26
Flat	15	8	13	12
Maisonette	1	1	1	1
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

The total value of the Group's reversionary interests in investment property disclosed in the financial statements is the sum of the individual valuations attributed to each reversionary interest. This valuation approach ignores the premium that the disposal of a portfolio of reversionary assets potentially commands in the secondary market.

## MILTON HOMES LIMITED

### OFFICERS AND PROFESSIONAL ADVISERS

---

#### Performance measures

Commensurate with the Group's objective to be a leading provider and administrator of innovative and traditional home reversion plans, whilst at the same time providing shareholders with sustainable relatively low-risk capital growth, the Directors target long-term capital growth in the investment value of the Group's reversionary interests in investment property, together with the realisation of long-term cost efficiencies

Accordingly, the Directors employ the following key performance measures

<u>Measure</u>	<u>Year ended</u> <u>31 December</u> <u>2009</u>	<u>Year ended</u> <u>31 December</u> <u>2008</u>
Growth in recognised income	17%	-588%
Growth in the number of home reversion plan originations	-85%	-4%
Growth in the investment value of reversionary interests in investment property	9%	-6%
Increase in proceeds from the sale and/or rental of reverted properties	2%	40%
Reduction in the ratio of administrative expenses to the aggregate investment value of reversionary interests in investment property	26%	8%
Growth in embedded value which incorporates the reversionary surplus of the property plan assets at current vacant possession values, net of provision for taxation	-6%	-5%

As noted in the *Business review and future developments* and *Investment portfolio* sections above, the current year's performance measures have been impacted by the current challenging lending environment and desire to conserve cash and has led to a conscious effort to reduce home reversion plan originations during the current year



## MILTON HOMES LIMITED

### OFFICERS AND PROFESSIONAL ADVISERS

---

#### Substantial interests

The Directors are aware that at the date of this report, the following shareholders held beneficial interests in ordinary shares amounting to 3% or more of the issued ordinary share capital of the company

	<u>No of shares</u>	<u>% of issued share capital</u>
DV3 Limited	26,985,901	90.09%
DV4 Limited	2,968,714	9.91%

#### Financial risk management objectives and policies

As part of the process of effective Corporate Governance, the Group conducts a process for the assessment and mitigation of risks affecting the Group, particularly those which could inhibit achievement of Group strategic objectives. In addition, risk management focuses on operational, compliance and financial objectives.

The Board sets the overall risk appetite and philosophy of the Group. The Board establishes the parameters for risk appetite through setting strategic direction contributing to and ultimately approving annual business plans for the Group, and regularly reviewing and monitoring performance in relation to risk through half-yearly and ad hoc reports.

Risk appetite is defined in both qualitative and quantitative terms and is an expression of the maximum level of residual risk that the Group is prepared to accept in order to deliver its business objectives.

Monitoring exposure to risk and uncertainty is an integral part of the Group's structured management processes. The Group's activities expose it to a number of financial risks including interest rate risk, credit risk, property market risk, longevity risk and liquidity risk. Details of how these risks are monitored and mitigated can be found in the Financial and Risk Review.

#### Employees

Details of the number of employees and related costs can be found in note 6 to the financial statements.

#### Disabled persons

It is the Group's policy to give full consideration to suitable applications for employment of disabled persons. Disabled employees are eligible to participate in all career development opportunities available to staff. Opportunities also exist for employees of the Group who become disabled to continue in their employment or to be retrained for other positions in the Group.

# MILTON HOMES LIMITED

## DIRECTORS' REPORT

---

### Employee involvement

The Group is committed to involving all employees in the performance and development of the Group. Its approach to employee development offers continual challenges in the job, learning opportunities and personal development.

The Group encourages all its employees to participate fully in the business through open dialogue. Employees receive news of the Group through frequent email notices, internal notices and Board statements. The Group maintains a strong communications network and employees are encouraged, through its open-door policy, to discuss with management matters of interest to the employee and subjects affecting day-to-day operations of the Group.

### Post balance sheet events

Details of significant events since the balance sheet date are disclosed in note 29 to the financial statements.

### Directors

The current Directors are listed on page 2 with biographical details on page 4. The following changes have occurred since the beginning of the financial period:

	<u>Date of resignation</u>
Edward Davidson Murray	9 July 2009
Harry Douglas Hill	8 July 2009
David Joseph Hyams	8 July 2009
I Pettifor	2 October 2009

The interests of Directors in the allotted share capital of the Company, or of any Group undertaking, at the beginning and end of the financial period are disclosed in the Remuneration Committee Report.

In terms of section 234 of the Companies Act 2006, the Directors of the Company have been granted Qualifying Third Party Indemnity Provisions by the Company, which remain in force as at the date of approving the Directors' Report.

# **MILTON HOMES LIMITED**

## **DIRECTORS' REPORT**

---

### **Statement of Directors' responsibilities**

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards ("IFRSs"), as adopted by the European Union

The Directors are required to prepare financial statements for each financial period which present fairly the financial position of the Group and of the Company and the financial performance and cash flows of the Group and of the Company for that period. In preparing those financial statements, the Directors are required to

- select suitable accounting policies in accordance with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, and then apply them consistently,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance,
- state that the Group has complied with IFRSs, 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 Group will continue in business

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the Companies Act 2006

The Directors are also responsible for the system of internal control, safeguarding the assets of the Group and of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions

The Directors confirm that they have complied with these requirements

### **Going concern statement**

Having made appropriate enquiries, in particular regarding the ability of the Company to meet its liabilities as and when they fall due, the Directors are satisfied that the Company has adequate resources to continue its operations for the foreseeable future. The Directors, therefore, continue to adopt the going concern basis in preparing the financial statements

## **MILTON HOMES LIMITED**

### **DIRECTORS' REPORT**

---

#### **Qualifying third party indemnity provisions for the benefit of Directors**

Under the Companies (Audit, Investigations and Community Enterprise) Act 2004 (which amends the Companies Act 1985), companies are under an obligation to disclose any indemnities which are in force in favour of their directors. The current Articles of Association of the Company contain an indemnity in favour of the Directors of the Company which indemnifies them in respect of any liability incurred by them in defending any proceedings (whether civil or criminal) in which judgment is given in their favour and costs that they might incur in the execution of their duties as Directors. Copies of the relevant extract from the Articles of Association are available for inspection at the registered office of the Company during normal business hours.

#### **Auditors**

In the case of each of the persons who is a Director at the time when the Directors' Report is approved, the following apply:

- to the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditors are unaware, and
- each of the Directors has taken all the steps that a Director might reasonably be expected to have taken to be aware of all 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 s418 of the Companies Act 2006.

Ernst & Young LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

# MILTON HOMES LIMITED

## DIRECTORS' REPORT

### FINANCIAL AND RISK REVIEW

---

#### Accounting policies

The key accounting policies relevant to an understanding of the Group's business are as follows

- a) *Accounting standards* - the consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (together "IFRS") as adopted by the European Union, and comply with the Companies Act 1985
- b) *Reversionary interest in investment property ("property plans")* - on account of differences in the structure of the property plans, the Retirement Plus branded property plans are recognised and accounted for in the financial statements as financial assets whilst the Living Plus branded property plans are accounted for and disclosed as investment properties. In both cases the assets are categorised as non-current

The Living Plus branded plan assets are recognised and accounted for as investment properties (in accordance with IAS40 Investment Properties) as the underlying property is held by the Group either as owner or as lessee, under a finance lease, to earn rentals and/or benefit from capital appreciation. In contrast, the Group is not considered to own the property underlying the Retirement Plus branded property plans as it does not have control over the asset, instead the Group has an option to acquire an increasing beneficial interest in the underlying property. Payments under the Retirement Plus branded plans are recognised as financial assets and accounted for at fair value through the income statement (in accordance with IAS39 Financial Instruments Recognition and Measurement)

Aside from the separate recognition in the financial statements, the key difference concerns origination costs, primarily commissions paid to IFAs and directly attributable property acquisition transaction costs. Such costs incurred in respect of the Retirement Plus branded plans are expensed to the income statement whilst those incurred in respect of the Living Plus branded plans are capitalised at the inception of the home reversion plan. This is in accordance with IAS39 which states that transaction costs that are directly attributable to the issue of financial assets cannot be included in the initial carrying amount of financial assets fair valued through the income statement.

Irrespective of whether they are disclosed as investment properties or financial assets, the investment values of the Group's reversionary interests are, subsequent to initial recognition at cost, measured at fair value with gains or losses so arising immediately recognised in the income statement. Fair value is determined for each asset on an individual basis and is based on active market prices, adjusted if necessary, for any difference in nature, location or condition of the underlying property. Fair values are based on valuations performed by an independent valuer that holds a recognised and relevant professional qualification and has recent experience in the location and category of the properties being valued.

As a result the different accounting treatment for origination costs of financial assets and investment properties is income statement neutral, the capitalisation of investment property origination costs results in a reduction in the revaluation gain on the subsequent first-time revaluation of the property plan equal to the value of the financial asset origination costs expensed to the income statement.

**MILTON HOMES LIMITED  
DIRECTORS' REPORT  
FINANCIAL AND RISK REVIEW**

---

**Accounting policies (continued)**

As evidenced by transactions completed in the first quarter of 2009, valuing each property plan asset on a stand-alone basis and then aggregating the results yields a significantly lower valuation than that which would have been achieved by valuing the property plans on a portfolio basis. Portfolio disposals aborted in recent months would, however, suggest that the realisability of such a premium is currently significantly less certain. The property plan valuations and recognised income disclosed in the financial statements do not reflect any portfolio premium.

- c) *Revenue recognition* - profits on the sale of reverted properties are recognised on completion of the sale and are included in income. Profits on disposal are calculated as net sales proceeds less the carrying amount of the properties determined with reference to the most recent valuation.

Gains or losses on the revaluation of investment properties and financial assets following the independent valuation of the Group's property portfolio are recognised in the period in which they arise. Rental income from reverted properties is recognised in the income statement on a straight-line basis over the unexpired lease term.

- d) *Derivative financial instruments* - the Group uses interest rate SWAPS and CAPS to hedge its exposure to adverse interest rate fluctuations, effectively Base Rate increases, as it considers appropriate. Such derivative instruments are initially recognised at fair value on the date on which the SWAP or CAP contract is entered into and subsequently remeasured at fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

**Capital structure**

It is the Group's policy to maintain a strong capital base, expanding it as appropriate to support projected growth, and to utilise capital efficiently.

In determining appropriate levels of capital, at both the Group and individual operating company level, the Directors are conscious of the need to maintain a prudent relationship between the underlying risks of the business and shareholder return, whilst at the same time satisfying financial covenants in bank credit facilities and the capital requirements of those companies subject to FSA supervision. The Group historically has employed a mixture of shareholder debt and equity capital in its capital base.

**MILTON HOMES LIMITED  
DIRECTORS' REPORT  
FINANCIAL AND RISK REVIEW**

---

**Capital structure (continued)**

The Group finances its operations and investment activity from the following sources

- a) Equity,
- b) Shareholder debt,
- c) External bank borrowings, and
- d) Net proceeds from the sale of reverted properties

The Group borrows in Sterling at floating rates of interest based on LIBOR plus a margin and uses fixed for floating interest rate derivatives to eliminate a substantial part of its interest rate risk exposure. The Group uses long-term derivative contracts to substantial match the term profile of its funding with that of the underlying property plan assets financed.

**Cash flow**

Consistent with the approach adopted by members of its peer group, the Directors believe that adjusting the information disclosed within the Group Cash Flow Statement to derive net cash generated for investment provides a more meaningful indicator of the Group's financial performance, as follows

	<b>31 December 2009 £'000</b>	31 December 2008 £'000
Net cash generated for investment		
Sale of investment properties and cancellation of equity release assets	7,837	6,845
Net cash outflow from operations before changes in working capital	(2,694)	(3,811)
	<u>5,143</u>	<u>3,034</u>

Proceeds from the sale of property plan assets amount to £7.8 million in the year (2008 £6.8 million), providing total administrative expenses cover for the enlarged group. Proceeds received in the year were marginally higher than those received in the prior twelve-month period.

The major factor contributing to the net cash outflow from operations has been the loss from operations which excludes losses from the revaluation of reversionary interest in investment property.

**MILTON HOMES LIMITED  
DIRECTORS' REPORT  
FINANCIAL AND RISK REVIEW**

**Cash flow (continued)**

In each period the major application of funds has been the purchase of reversionary interests in property plan assets whilst the primary source of funds has been debt and equity contributed by the shareholders, as detailed in the table below

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
<i><u>Source and application of funds</u></i>		
<i>Major application of funds</i>		
Plan originations	3,434	17,683
<i>Major source of funds</i>		
Shareholders' equity	-	-
New debt from bank	68,000	18,020
Net shareholder debt	22,357	23,961

**Capitalisation and indebtedness**

The following tables show the capitalisation and indebtedness of the Group at each period end

	31 December 2009 £'000	31 December 2008 £'000
<i><u>Capitalisation and indebtedness</u></i>		
Secured	-	25,292
Unguaranteed/unsecured	98	26,285
Total current debt	98	51,577
Secured	67,347	39,854
Unguaranteed/unsecured	23,327	767
Total non-current debt	90,674	40,621
Share capital and share premium	30,088	30,087
Capital reserves	7,750	5,449
Other reserves	(4,782)	(4,837)
Shareholders' equity	33,056	30,699



**MILTON HOMES LIMITED  
DIRECTORS' REPORT  
FINANCIAL AND RISK REVIEW**

**Capitalisation and indebtedness (continued)**

	31 December 2009 £'000	31 December 2008 £'000
<u>Net indebtedness</u>		
Cash	2,649	4,499
Total liquidity	2,649	4,499
Current bank debt	-	(25,292)
Other current financial debt	(98)	(26,285)
Current financial debt	(98)	(51,577)
Net current financial indebtedness	2,551	(47,078)
Non-current bank loans	(67,347)	(39,854)
Other non-current financial debt	(23,327)	(767)
Non-current financial indebtedness	(90,674)	(40,621)
Net financial indebtedness	(88,123)	(87,699)

Notes

- (1) Shareholder's equity does not include the profit and loss account reserve  
(2) The Group has no indirect or contingent indebtedness as at 31 December 2009

**Risk management**

The Board sets the overall risk appetite and philosophy of the Group. The Board establishes the parameters for risk appetite through setting strategic direction, contributing to and ultimately approving annual business plans for the Group, and regularly reviewing and monitoring performance in relation to risk through quarterly and ad hoc reports.

Risk appetite is defined in both qualitative and quantitative terms and is an expression of the maximum level of residual risk that the Group is prepared to accept in order to deliver its business objectives and is regularly assessed.

In assessing risk the Board utilises a consistent approach drawn from perceived best risk management practice which utilises a generic high-level framework and generic risk factors. This approach considers the potential impact of each risk together with the likelihood of the risk materialising at an "inherent" level, i.e. before considering any mitigating controls. The definition of these terms is as follows:

## **MILTON HOMES LIMITED DIRECTORS' REPORT FINANCIAL AND RISK REVIEW**

---

### **Risk management (continued)**

- **Impact** - the extent to which the risk, if it materialised, would adversely effect the Group  
Factors that help define the impact rating may include financial effect, reputation impact, ability to achieve key objectives, etc
- **Likelihood** - the probability of a risk materialising over a predefined time period, currently set at one year. In some cases, frequency of occurrence may be considered as well

This assessment process results in a list of key business risks which have a high overall risk rating and, therefore, are those which most critically require controls to be implemented to manage or mitigate the underlying risks. Reassessment of key business risks is undertaken by executive management on a regular basis. The reassessment is not limited to the identified key business risks but takes into consideration both internal and external changes and includes those risks which would impact on the financial reporting process.

The Directors believe that this approach is consistent with FSA guidance for integrating and embedding risk and capital management practices and procedures.

The following Board and executive sub-committees support the Board in the risk management process.

The Executive Committee is an executive sub-committee set up by the Chief Executive ("CEO") to assist him in discharging his responsibilities to the Board for the running of the Group's businesses. The Executive Committee consists of the CEO, who is Chairman, the Managing Director and such other senior executives as the CEO chooses to appoint.

The Risk Management Committee is an executive sub-committee set up by the CEO to assist him in discharging his responsibilities to the Board for monitoring and managing risk throughout the Group's businesses, ensuring that the Group's risk management framework is adequate in design and operates effectively. At present the Risk Management Committee is run as part of the Executive Committee and has not been constituted as a separate committee. The Risk Management Committee recommends for approval limits, policies and procedures in respect of the effective management of all material risks, considering risks to the Group under the headings of

- a) Strategic objectives - that relate to high-level goals, aligned with and supporting the Group's mission,
- b) Operational objectives - that relate to the effectiveness and efficiency of the Group's operations, including performance and profitability goals and safeguarding resources against loss,
- c) Compliance objectives - that relate to adherence to the laws and regulations to which the Group is subject, and
- d) Financial objectives - that pertain both to the financial status of the Group, together with that of individual operating companies, and financial reporting, including the exposure to fraudulent or erroneous public disclosure of financial information.

The principal risks that the Group seeks to manage are as follows:

- a) Interest rate risk is the risk of adverse changes (effectively increases) in market interest rates and arises primarily from the Group's floating rate debt obligations.

**MILTON HOMES LIMITED  
DIRECTORS' REPORT  
FINANCIAL AND RISK REVIEW**

---

**Risk management (continued)**

When it considers appropriate, the Group uses fixed for floating interest rate derivatives to eliminate a substantial part of its interest rate risk exposure. Interest rate derivative contracts generally have quarterly fixed interest payments and floating interest receipts at LIBOR and are settled on a net basis.

- b) Liquidity risk is the risk that the Group is unable to meet its cash obligations as they fall due.

The Group monitors its liquidity risk by maintaining short-term and long-term cash flow forecasts which identify significant future cash flow requirements, primarily from debt repayment schedules.

The Group maintains a mixture of short-term and long-term facilities that ensure the Group has sufficient available funds to satisfy daily requirements and planned future acquisitions of reversionary interest in investment property.

In addition, the ultimate parent company, DV3 Limited, has historically provided long-term funding on arms-length commercial terms.

- c) Credit risk is the risk that the Group will incur losses as a result of the failure of customers and counterparties to meet their obligations and arises from holdings of cash and cash equivalents, loans and interest rate derivatives.

The Group is not subject to material levels of credit risk.

- d) Longevity risk is the risk that the Group, as a provider of equity release products, will incur financial loss because of the later-than-anticipated reversion of properties on account of experienced life expectancy improvements.

The Group seeks to mitigate this risk through its product-pricing policy and the use of conservative mortality assumptions. The services of professionally qualified, independent firms of actuaries are regularly utilised to review the mortality assumptions employed by the Group, monitoring them against external data, emerging trends and historic assumptions.

The Group regularly reviews the purchase of insurance protection against longevity risk and has insurance cover for excessive longevity risk built into the Living Plus impaired-life product.

- e) Property market risk is the risk that the investment value of the Group's reversionary interest in investment property may experience lower than anticipated or indeed negative growth. The investment value of the Group's reversionary interest in investment property is determined by changes in investment yields, actuarial assumptions regarding mortality and morbidity rates and by changes in the market value of the underlying properties.

**MILTON HOMES LIMITED  
DIRECTORS' REPORT  
FINANCIAL AND RISK REVIEW**

---

**Risk management (continued)**

The Group seeks to mitigate the level of property risk to which it is exposed by maintaining a portfolio that is well diversified both geographically and in terms of individual property values, and by seeking to avoid holding lower-quality property assets which are generally more adversely impacted by market downturns. The Group adheres to eligibility criteria regarding the type, condition and marketability of the underlying property when entering into a home reversion plan.

The Group's property market risk is further mitigated by the five-year floor in the Retirement Plus Property Plan which protects the Group from negative HPI in the first five years of the plan.

- f) Regulatory risk is the risk arising from a failure to satisfy the Group's obligations to its regulators, primarily the FSA, or to identify the requirement for and implement revised business processes in response to changes in the regulations to which the Group is subject.

The Group utilises the services of a firm of regulatory compliance consultants to both advise on relevant changes in the regulatory environment and to ensure that the Group's operational processes and procedures are fully compliant with FSA rules, regulations and guidance and that they operate effectively.

- g) Reputation risk is the risk of damage to the Group's trading name, brands and/or corporate identity arising from perceived or actual instances of unethical or disreputable business behaviour.

The Directors recognise that the success of the Group is heavily dependent upon demonstrating and maintaining consistently high ethical standards in all business dealings and in delivering a high-quality, hassle-free service to intermediaries and customers. The Directors believe that the Group's service ethos helps engender a passion for delivering a high-quality personalised service.

- h) Operational risk is the risk arising from the Group's people, processes, systems and external events.

The Group seeks to manage operational risk through the risk management framework articulated above.

## **MILTON HOMES LIMITED DIRECTORS' REPORT FINANCIAL AND RISK REVIEW**

---

The Directors recognise the value of the Combined Code on Corporate Governance and take appropriate measures to ensure that the Company complies with the Combined Code to the extent appropriate for a company of its size and nature of business. As the Company is not listed, it is neither to comply with, nor report on its compliance with the Combined Code. The following disclosures explain the procedures the Company has adopted or is in the process of adopting.

### **Governance framework**

The key features of the governance framework established by the Group are as follows:

- Documented terms of reference for the Board and each of its Committees,
- A schedule of Reserved Matters requiring Board approval, supported by clearly defined delegated authorities for the approval of significant or unusual transactions, and
- A risk management and control framework

### **Board responsibilities and effectiveness**

The Board is collectively responsible to shareholders for setting the direction of the business and monitoring the Group's ongoing affairs. It is also responsible for ensuring an effective internal control environment that identifies and manages appropriately the risks associated with the business set out in the Financial and Risk Review above.

The Board demonstrates its commitment to the strategic direction and control of the Group by scheduling a series of meetings in the year. It can meet as necessary outside of this schedule to consider any urgent matters that may arise. It sets the strategic objectives of the Group, ensuring sufficient financial and human resources are in place to meet those aims. The Board is responsible for leading and controlling the Group and, in particular, for formulating, reviewing and approving the Group strategy, budget, purchases of reversionary interests in investment property above certain thresholds and senior personnel appointments.

The Board sets the Group's values and standards of business conduct and ensures that its obligations to clients, employees, suppliers, the community and other key stakeholders are understood and met. There is a formal schedule of matters reserved for consideration by the Board and other matters are delegated to Board committees.

The Board also considers regular reports from the Chief Executive and Managing Director. The Board is provided with complete, timely and relevant information to ensure that informed judgements are made in pursuit of the Group's objectives.

The Board reviews the performance of management in meeting business objectives, plans the succession of key executives, and determines appropriate remuneration levels. The operational management of the Group is delegated to the Executive Committee, which meets monthly.

# MILTON HOMES LIMITED

## DIRECTORS' REPORT

### FINANCIAL AND RISK REVIEW

---

#### Directors' attendance record

The attendance record of each of the Directors at scheduled Board and Committee meetings for the year ended 31 December 2009 is as follows

	<u>Board</u>	<u>Executive Committee</u>	<u>Audit Committee</u>	<u>Nominations Committee</u>	<u>Remuneration Committee</u>
<i>Non-executive</i>					
CB Wagman	4(4)	n/a	n/a	n/a	n/a
<i>Executive</i>					
I Pettifor	3(3)	9(9)	n/a	n/a	n/a
CR Rumsey	4(4)	11(11)	n/a	n/a	n/a
DJW Young	4(4)	11(11)	n/a	n/a	n/a

The numbers in brackets represent the maximum number of meetings in the period during which the Director was a Board and Committee member

#### Director induction and professional development

On joining the Board, all Directors receive an appropriate induction programme. All Board members have access to independent advice on any matters relating to their responsibilities as Directors and as members of the various committees of the Board, at the Group's expense. The Company Secretary, Olswang Company Secretarial Services Limited, is available to all Directors and is responsible for ensuring that all Group Board procedures are complied with.

During the year, the Directors received appropriate ongoing briefings and information, including updates on governance and regulatory issues, to enable them to perform their roles.

Adequate directors and officer's liability insurance is maintained.

#### Going concern

The Directors' statement on going concern is included in the Directors' Report on page 10.

## **MILTON HOMES LIMITED DIRECTORS' REPORT CORPORATE SOCIAL RESPONSIBILITY**

---

The Directors and the Group are committed to high ethical standards in all their dealings. The subsidiary company, Retirement Plus Limited, as an FSA authorised arranger and administrator of home reversion plans is reliant upon its ability to build a long-term relationship of trust and high-quality service with elderly homeowners.

In observing the FSA's high-level principle of Treating Customers Fairly, the Directors believe the delivery of appropriate advice is critical. In the case of equity release, it is important that homeowners are advised against taking out an equity release plan if there are better options available, such as downsizing to a smaller home. Accordingly, the Group will only sell its products through FSA authorised mortgage brokers and Independent Financial Advisers (together "IFAs"). The Group is committed to furthering awareness amongst the IFA community regarding home reversion products in general and has held a number of training seminars for this purpose.

The Group's home reversion plans also continue to comply with the code of practice of Safe Home Income Plans ("SHIP"). Occupants of properties held under the Group's home reversion plans have access to the Group's skilled staff who assist them with any problems associated with the maintenance of their homes.

The Group's Managing Director, Christopher Rumsey, is a member of the SHIP Board. Through its active participation in SHIP and other bodies, the Group has assisted with the development of industry best practice in a changing regulatory environment. In addition, SHIP has its own Reversions Complaints Board which acts independently of the FSA.

Although the equity release market is fully regulated by the FSA, homeowners contemplating an equity release plan are advised only to consider plans provided by members of SHIP. Its members commit to a voluntary code which incorporates minimum product standards and other safeguards for consumers not covered by FSA regulation, including:

- a no negative equity guarantee,
- security of tenure for life,
- the ability to move home without financial penalty,
- clear presentation of plans, and
- a requirement that no plan may be taken out without the customer having first received independent legal advice.

### **Charitable and political donations**

During the period charitable donations amounted to £nil (2008: £100). No political contributions were made during the period (2008: £nil).

### **Environment**

The Group recognises the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to reduce any damage that might be caused by the Group's activities. Initiatives designed to minimise the Group's impact on the environment include safe disposal of waste, recycling and reducing energy consumption.

## MILTON HOMES LIMITED

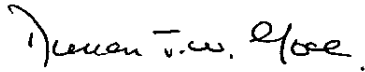
### DIRECTORS' REPORT

---

#### Payment of creditors

The Company aims to pay creditors in accordance with the creditors' contractual terms, agreed at the time of entering into new business relationships and transactions. A significant proportion of the Group's trade payables balance relates to directly attributable transaction costs that are capitalised as part of the acquisition cost of investment properties. This, together with the low value of expenditure, means that days' purchases outstanding in trade payables is not a meaningful measure for the Company.

Approved by the Board of Directors  
and signed by order of the Board



DJW Young  
Director

18/6/10



## **MILTON HOMES LIMITED**

### **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS**

---

We have audited the financial statements of Milton Homes Limited for the year ended 31 December 2009 which comprise the Statement of Comprehensive Income, Statement of Changes in Equity, Balance Sheet, the Cash Flow Statement, and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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 auditors**

As explained more fully in the Statement of Directors' Responsibilities set out on page 6, 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 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.

#### **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 December 2009 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, 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 Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## MILTON HOMES LIMITED

### INDEPENDENT AUDITORS' REPORT TO THE MEMBERS

---

#### 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

Ernst & Young LLP

Graham Bradshaw (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London

18/6/10

**MILTON HOMES LIMITED**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**for the period ended 31 December 2009**

	Notes	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
<b>Income</b>			
Profit on disposal of investment property		540	458
Gain on cancellation of equity release plans		5	9
Gain / (Loss) on revaluation of investment property		5,340	(14,762)
(Loss)/gain on revaluation of equity release plan financial assets		(854)	(3,392)
Other income	4	2,532	726
		<u>7,563</u>	<u>(16,961)</u>
Administrative expenses		2,611	4,060
<b>Operating profit / (loss)</b>	5	<u>4,952</u>	<u>(21,021)</u>
Finance income	7	18	582
Finance expense	8	4,535	6,935
		<u>435</u>	<u>(27,377)</u>
<b>Profit / (Loss) before tax</b>			
Tax credit for the period	9	-	-
<b>Total comprehensive income / (loss) for the financial period, net of tax, attributable to equity shareholders</b>		<u><u>435</u></u>	<u><u>(27,377)</u></u>

The operating profit / (loss) for the current and preceding financial periods arise from continuing activities  
The company has no other comprehensive income, other than the profits and losses above, for the year  
ended 31 December 2009 (2008 £nil)

**MILTON HOMES LIMITED**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**for the period ended 31 December 2009**

	Share capital £'000	Share premium reserve £'000	Capital reserve £'000	Other reserves £'000	Retained earnings £'000	Total £'000
As at 1 January 2008	29,955	133	5,449	(4,837)	(2,730)	27,970
Contribution to executive share option scheme	(1)	-	-	-	-	(1)
Loss for the period	-	-	-	-	(27,377)	(27,377)
<b>As at 31 December 2008</b>	<b>29,954</b>	<b>133</b>	<b>5,449</b>	<b>(4,837)</b>	<b>(30,107)</b>	<b>592</b>
As at 1 January 2009	29,954	133	5,449	(4,837)	(30,107)	592
Contribution to executive share option scheme	-	-	-	-	-	-
Capital Contribution	-	-	2,301	-	-	2,301
RBS Warrants	-	-	-	55	-	55
Profit for the period	-	-	-	-	435	435
<b>As at 31 December 2009</b>	<b>29,954</b>	<b>133</b>	<b>7,750</b>	<b>(4,782)</b>	<b>(29,672)</b>	<b>3,383</b>

**COMPANY STATEMENT OF CHANGES IN EQUITY**  
**for the period ended 31 December 2009**

	Share capital £'000	Share premium reserve £'000	Capital reserve £'000	Other reserves £'000	Retained earnings £'000	Total £'000
At 1 January 2008	29,955	133	796	-	61	30,945
Contribution to executive share option scheme	(1)	-	-	-	-	(1)
Loss for the period	-	-	-	-	(28,445)	(28,445)
<b>At 31 December 2008</b>	<b>29,954</b>	<b>133</b>	<b>796</b>	<b>-</b>	<b>(28,384)</b>	<b>2,499</b>
At 1 January 2009	29,954	133	796	-	(28,384)	2,499
Contribution to executive share option scheme	-	-	-	-	-	-
Capital Contribution	-	-	2,301	-	-	2,301
RBS Warrants	-	-	-	55	-	55
Loss for the period	-	-	-	-	(1,472)	(1,472)
<b>At 31 December 2009</b>	<b>29,954</b>	<b>133</b>	<b>3,097</b>	<b>55</b>	<b>(29,856)</b>	<b>3,383</b>

**MILTON HOMES LIMITED**  
**CONSOLIDATED BALANCE SHEET**  
as at 31 December 2009

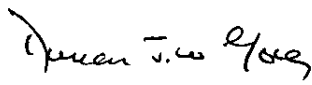
	Notes	2009 £'000	2008 £'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment properties	10	61,171	59,709
Financial assets – equity release plans	11	31,218	29,763
Property, plant and equipment	13	58	44
Intangible assets	14	41	79
Derivative financial instruments	15	-	-
Financial assets at fair value through profit or loss	16	-	602
		<b>92,488</b>	<b>90,197</b>
<b>Current assets</b>			
Loans receivable	17	-	762
Trade and other receivables	18	50	364
Cash and cash equivalents		2,649	4,499
		<b>2,699</b>	<b>5,625</b>
<b>Total assets</b>		<b>95,187</b>	<b>95,822</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	19	1,032	3,032
Interest bearing loans and borrowings	20	98	51,577
		<b>1,130</b>	<b>54,609</b>
<b>Non-current liabilities</b>			
Derivative financial instruments	15	-	-
Interest bearing loans and borrowings	20	90,674	40,621
		<b>90,674</b>	<b>40,621</b>
<b>Total liabilities</b>		<b>91,804</b>	<b>95,230</b>
<b>Total net assets</b>		<b>3,383</b>	<b>592</b>
<b>EQUITY</b>			
Share capital	22	29,954	29,954
Share premium reserve	23	133	133
Capital reserve	23	7,750	5,449
Other reserves	23	(4,782)	(4,837)
Retained earnings	23	(29,672)	(30,107)
<b>Total equity</b>		<b>3,383</b>	<b>592</b>

**MILTON HOMES LIMITED**  
**CONSOLIDATED BALANCE SHEET**  
**as at 31 December 2009**

---

These financial statements were approved by the Board of Directors and authorised for issue on

Signed on behalf of the Board of Directors



DJW Young  
Director



CR Rumsey  
Director

18/6/10

**MILTON HOMES LIMITED**  
**COMPANY BALANCE SHEET**  
as at 31 December 2009

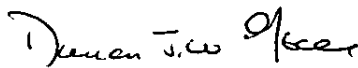
	Notes	2009 £'000	2008 £'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment in subsidiary undertakings	12	33,701	10,039
Financial assets at fair value through profit or loss	16	-	602
Loans receivable	17	65,990	21,599
		<u>99,691</u>	<u>32,240</u>
<b>Current assets</b>			
Trade and other receivables	18	336	1,313
Cash and cash equivalents		-	465
		<u>336</u>	<u>1,778</u>
<b>Total assets</b>		<u>100,027</u>	<u>34,018</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	19	1,182	163
Interest bearing loans and borrowings	20	-	31,356
		<u>1,182</u>	<u>31,519</u>
<b>Non-current liabilities</b>			
Derivative financial instruments	15	-	-
Interest bearing loans and borrowings	20	95,462	-
		<u>95,462</u>	<u>-</u>
<b>Total liabilities</b>		<u>96,644</u>	<u>31,519</u>
<b>Total net assets</b>		<u>3,383</u>	<u>2,499</u>
<b>EQUITY</b>			
Share capital	22	29,954	29,954
Share premium reserve	23	133	133
Capital reserve	23	3,097	796
Other reserve	23	55	-
Retained earnings	23	(29,856)	(28,384)
<b>Total equity</b>		<u>3,383</u>	<u>2,499</u>

**MILTON HOMES LIMITED  
COMPANY BALANCE SHEET  
as at 31 December 2009**

---

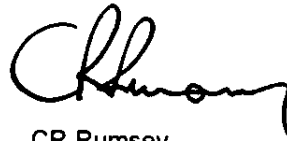
These financial statements were approved by the Board of Directors and authorised for issue on

Signed on behalf of the Board of Directors



DJW Young  
Director

*B/6/10*



CR Rumsey  
Director



**MILTON HOMES LIMITED**  
**CONSOLIDATED CASH FLOW STATEMENT**  
for the period ended 31 December 2009

	Notes	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
<b>Operating activities</b>			
Profit / (Loss) for the period		435	(27,377)
Tax credit on continuing activities		-	-
Decrease/(Increase) in fair value of investment properties	10	(5,340)	14,762
Realised gain on disposal of investment property		(540)	(458)
Decrease/(Increase) in fair value of equity release plan financial assets	11	854	3,392
Realised gains from cancellation of equity release plans		(5)	(9)
Equity Transfer Rate income	4	(2,339)	(1,620)
Gain / Loss on revaluation of financial assets at fair value through profit or loss	16	(190)	986
Finance income	7	(18)	(582)
Finance expense	8	4,535	6,938
Depreciation of property, plant and equipment	13	44	60
Amortisation of intangible assets	14	38	38
Capital contribution from parent companies	24	2,301	-
Impairment on loans		-	59
<b>Net cash outflow before changes in working capital</b>		<b>(225)</b>	<b>(3,811)</b>
Decrease/(Increase) in trade and other receivables		314	2,497
(Decrease)/Increase in trade and other payables		(2,001)	(2,296)
<b>Net cash outflow from operating activities</b>		<b>(1,912)</b>	<b>(3,610)</b>
<b>Investing activities</b>			
Interest received	7	18	209
Proceeds from sale of investment property	10	6,644	6,540
Purchase of investment property	10	(2,226)	(3,922)
Proceeds from cancellation of equity release assets	11	1,411	305
Purchase of equity release assets	11	(1,376)	(13,761)
Purchase of property, plant and equipment	13	(58)	(9)
Purchase of intangible assets	14	-	-
Purchase / Disposal of financial assets at fair value through profit or loss	16	792	(1,058)
Acquisition of Group undertakings (net of cash acquired)		-	-
<b>Net cash (outflow)/inflow from investing activities</b>		<b>5,205</b>	<b>(11,696)</b>
<b>Financing activities</b>			
Proceeds from loans	17	762	-
Interest paid	8	(2,226)	(5,196)
Bond discount paid	8	(1,847)	-
Proceeds from cancellation of interest rate SWAPs/CAPS		-	119
Bank loan facility fees	8	(75)	(80)
New debt drawn down from banks	24	68,000	18,020
Net debt drawn down from parent companies	24	22,357	23,961
Repayment of borrowings from banks	24	(65,798)	(21,216)
Repayment of borrowings from parent companies	24	(26,188)	(21,216)
Repayment of deferred purchase consideration	24	(128)	(118)
Contribution to executive share option scheme		-	(1)
<b>Net cash inflow/(outflow) from financing activities</b>		<b>(5,143)</b>	<b>15,489</b>
<b>Increase/(Decrease) in cash and cash equivalents</b>		<b>(1,850)</b>	<b>183</b>
Cash and cash equivalents at the beginning of the period		4,499	4,316
<b>Cash and cash equivalents at the end of the period</b>	24	<b>2,649</b>	<b>4,499</b>

**MILTON HOMES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the period ended 31 December 2009

	Notes	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
<b>Operating activities</b>			
(Loss)/profit for the period	23	(1,472)	(28,445)
Gain on revaluation of fair valued financial assets	16	(190)	986
Interest capitalised		510	-
Inter-company loans capitalised		(1,181)	-
Provision for diminution in value of investment in subsidiary undertakings	12	(1,222)	26,848
Finance income		-	(1,568)
Finance expense		2,620	1,922
RBS Warrants	23	54	-
RBS Warrants		2,300	-
<b>Net cash outflow before changes in working capital</b>		<b>1,419</b>	<b>(257)</b>
Decrease/(Increase) in trade and other receivables	18	977	2,926
(Decrease)/Increase in trade and other payables	19	1,020	(2,273)
<b>Net cash inflow/(outflow) from operating activities</b>		<b>3,416</b>	<b>396</b>
<b>Investing activities</b>			
Interest received		-	10
Purchase / sale of financial assets at fair value through profit or loss	16	792	(1,058)
Loans to subsidiary undertakings	17	(68,150)	(28,052)
Loan repayment by subsidiary undertakings	17	2,500	200
<b>Net cash outflow from investing activities</b>		<b>(64,858)</b>	<b>(28,900)</b>
<b>Financing activities</b>			
Interest paid		(773)	-
Bond discount paid		(1,848)	-
New debt drawn down from parent companies	24	22,357	23,961
Capital contribution from parent companies	24	2,301	-
New debt drawn down from subsidiary undertakings	24	1,700	6,850
New debt drawn down from bank	24	68,000	-
Loan repayment to parent companies	24	(26,188)	-
Loan repayment to subsidiary undertakings	24	(1,620)	(1,888)
Loan repayment to bank	24	(653)	-
Contribution to executive share option scheme		1	(1)
<b>Net cash inflow from financing activities</b>		<b>60,977</b>	<b>28,922</b>
<b>Net increase in cash and cash equivalents</b>		<b>(465)</b>	<b>418</b>
Cash and cash equivalents at beginning of the period		465	47
<b>Cash and cash equivalents at end of the period</b>	24	<b>-</b>	<b>465</b>

**MILTON HOMES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the period ended 31 December 2009**

---

**1 Accounting policies**

Milton Homes Limited (the "Company") is a company registered in England and Wales. The consolidated financial statements of the Company for the year ended 31 December 2009 comprise the Company and its subsidiaries (together the "Group").

The Group and Company's financial statements are prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee of IASB (together "IFRS") as adopted by the European Union, and comply with the Companies Act 2006.

The Company has taken advantage of the exemption provided under section 230 of the Companies Act 2006 not to publish its individual income statement and related notes.

The principal accounting policies set out below have been applied consistently to all periods presented in these financial statements.

The financial statements are prepared in Sterling and all values are rounded to the nearest pounds thousands except where otherwise indicated.

**Changes in accounting policy**

The accounting policies adopted are consistent with those of the previous financial year, except that the following new and amended IFRS and IFRIC interpretations have come into effect as of 1 January 2009:

*IAS 1 Revised Presentation of Financial Statements*

The revised Standard was issued in September 2007 and becomes effective for financial years beginning on or after 1 January 2009. The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. Upon adoption of the revised standard the Group will include in its financial statements a Statement of Comprehensive Income.

*Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements*

The amendments to IFRS 1 allows an entity to determine the 'cost' of investments in subsidiaries, jointly controlled entities or associates in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognised in the income statement in the separate financial statements. Both revisions will be effective for financial years beginning on or after 1 January 2009. The revision to IAS 27 will have to be applied prospectively. IFRS 1 and IAS 27 will not have an impact on the financial statements because the Company does not have any investments in jointly controlled entities or associates, and is unlikely to receive dividends from its subsidiary companies in the near future.

**MILTON HOMES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the period ended 31 December 2009**

---

**1 Accounting policies (continued)**

**Changes in accounting policy (continued)**

*IFRS 7 Financial Instruments - Disclosures (Amended)*

The amendment to the standard requires an entity to provide a quantitative and qualitative analysis of those instruments recognised at fair value based on a three-level measurement hierarchy. The standard also amends the previous liquidity risk disclosures as required under IFRS 7 for non-derivative and derivative financial liabilities. Entities are required to apply this amendment for annual periods beginning on or after 1 January 2009, with no requirement to provide comparatives on transition. The Company has concluded that this amendment will have no impact on the financial position or performance of the Company.

*IFRS 8 Operating Segments*

IFRS 8 replaces IAS 14 Segment Reporting. The Company has concluded that the reportable segments determined in accordance with IFRS 8, as with IAS 14, do not require separate disclosure.

*IAS 23 Borrowing Costs (Revised)*

The revised IAS 23 requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, but only if such assets are not measured at fair value. The Company has concluded that this revision will have no impact on the financial position or performance of the Company.

*IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*

These amendments to IAS 32 and IAS 1 were issued in February 2008 and become effective for financial years beginning on or after 1 January 2009. The revisions provide a limited scope exception for puttable instruments to be classified as equity if they fulfil a number of specified features. The amendments to the standards will have no impact on the financial position or performance of the Company, as the Company has not issued such instruments.

*IAS 40 Investment Property*

Revision of the scope such that property under construction or development for future use as an investment property is classified as investment property. If fair value cannot be reliably determined, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete. Also, revised of the conditions for a voluntary change in accounting policy to be consistent with IAS 8 and clarified that the carrying amount of investment property held under lease is the valuation obtained increased by any recognised liability. The Company has concluded that the amendment will have no impact on the financial position or performance of the Company, as the Company has no property under construction or development for future use.

*IFRIC 15 Agreement for the Construction of Real Estate*

IFRIC 15 was issued in July 2008 and becomes effective for financial years beginning on or after 1 January 2009. The interpretation is to be applied retrospectively. It clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18. IFRIC 15 will not

**MILTON HOMES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the period ended 31 December 2009**

---

**1. Accounting policies (continued)**

**Changes in accounting policy (continued)**

have an impact on the financial statements because the Company does not conduct such activity

**Standards and interpretations issued but not applied**

*IFRS 3R Business Combinations and IAS 27R Consolidated and Separate Financial Statements*

The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. IFRS 3R introduces a number of changes in the accounting for business combinations occurring after this date that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will they give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 Statement of Cash Flows, IAS 12 Income Taxes, IAS 21 The Effects of Changes in Foreign Exchange Rates, IAS 28 Investment in Associates and IAS 31 Interests in Joint Ventures. The changes by IFRS 3R and IAS 27R will affect future acquisitions or loss of control and transactions with minority interests. The standards may be early applied, however, the Group does not intend to take advantage of this possibility.

*IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items*

These amendments to IAS 39 were issued in August 2008 and become effective for financial years beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

**Improvements to IFRSs**

The Company has not yet adopted the following amendments and anticipates that these changes will have no material effect on the financial statements. The company will adopt the following standards on the relevant effective dates, as proscribed by each respective standard.

*IAS 8 Accounting Policies, Change in Accounting Estimates and Errors*

Clarification that only implementation guidance that is an integral part of an IFRS is mandatory when selecting accounting policies.

*IAS 10 Events after the Reporting Period*

Clarification that dividends declared after the end of the reporting period are not obligations.

*IAS 16 Property, Plant and Equipment*

Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale.

**MILTON HOMES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the period ended 31 December 2009**

---

**1 Accounting policies (continued)**

**Improvements to IFRSs (continued)**

*IAS 18 Revenue*

Replacement of the term 'direct costs' with 'transaction costs' as defined in IAS 39

*IAS 19 Employee Benefits*

Revised the definition of 'past service costs', 'return on plan assets' and 'short term' and 'other long-term' employee benefits. Amendments to plans that result in a reduction in benefits related to future service are accounted for as curtailment. Deleted the reference to the recognition of contingent liabilities to ensure consistency with IAS 37.

*IAS 20 Accounting for Government Grants and Disclosures of Government Assistance*

Loans granted in the future with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as a government grant. Also, revised various terms used to be consistent with other IFRSs.

*IAS 27 Consolidated and Separate Financial Statements*

When a parent entity accounts for a subsidiary at fair value in accordance with IAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.

*IAS 29 Financial Reporting in Hyperinflationary Economies*

Revised the reference to the exception to measure assets and liabilities at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list. Also, revised various terms used to be consistent with other IFRSs.

*IAS 34 Interim Financial Reporting*

Earnings per share is disclosed in interim financial reports if an entity is within the scope of IAS 33.

*IAS 39 Financial Instruments: Recognition and Measurement*

Changes in circumstances relating to derivatives are not reclassifications and therefore may be either removed from, or included in, the 'fair value through profit or loss' classification after initial recognition. Removed the reference in IAS 39 to a 'segment' when determining whether an instrument qualifies as a hedge. Requires the use of the revised effective interest rate when remeasuring a debt instrument on the cessation of fair value hedge accounting.

*IAS 41 Agriculture*

Removed the reference to the use of a pre-tax discount rate to determine fair value. Removed the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Also, replacement of the term 'point-of-sale costs' with 'costs to sell'.

*IFRIC 16 Hedges of a Net Investment in a Foreign Operation*

IFRIC 16 was issued in July 2008 and becomes effective for financial years beginning on or after 1 October 2008. The interpretation is to be applied prospectively. IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or

**MILTON HOMES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the period ended 31 December 2009**

---

**1. Accounting policies (continued)**

**Improvements to IFRSs (continued)**

loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. IFRIC 16 will not have an impact on the financial statements because the Company does not have foreign currency denominated investments.

**Basis of consolidation**

The financial statements comprise the financial statements of Milton Homes Limited and its subsidiary undertakings.

Subsidiaries are consolidated from the date control passes, and continue to be consolidated until the date such control ceases. Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities and is achieved through direct or indirect ownership of voting rights or by way of contractual agreement. The financial statements of subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All inter-company balances and transactions are eliminated.

**Business combinations and goodwill**

Business combinations are accounted for using the purchase method. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Negative goodwill is written back to the income statement.

Goodwill is reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. An impairment loss is recognised where the recoverable amount of a business acquired is less than the carrying value. The Group performs its annual impairment test of goodwill at the year end.

When subsidiaries are sold, the difference between the selling price and the net assets plus the carrying value of goodwill is recognised in the income statement.

**Business combinations involving businesses under common control**

Business combinations involving entities under common control are accounted for using the pooling of interests method. This requires the financial statements of the combining entities to be consolidated from the beginning of the earliest period presented. The carrying values of the assets and liabilities of the separate entities are combined in the balance sheet and no fair value adjustments are made. Any difference between the amount recorded as share capital issued plus any additional consideration and the amount recorded for the share capital acquired is adjusted against equity; no goodwill is recognised.

**MILTON HOMES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the period ended 31 December 2009**

---

**1 Accounting policies (continued)**

**Investments in subsidiary undertakings**

Investments in subsidiaries are at stated at cost less any provision for impairment in value. The carrying value is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

**Investment property**

Property that is held for capital appreciation and that is not occupied by the Group is classified as investment property. Leasehold property held for capital appreciation and that is not occupied by the Group is treated as a finance lease and included within investment property.

Investment property is measured initially at cost, including commissions paid to IFAs and directly attributable property acquisition transaction costs, and is thereafter reported at fair value, which reflects market conditions at the period end date. Fair value is based on active market prices, adjusted if necessary for any difference in nature, location or condition of the property. The fair value of the investment property is based on a valuation by Allsop LLP, an independent valuer, who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

Gains or losses arising from a change in the fair values of the investment properties are recognised in the income statement in the period in which they arise.

An investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future benefits can be expected from its disposal. The gain or loss arising from the retirement or disposal of investment property is determined as the difference between the net disposal proceeds and the carrying amount of the asset.

**Financial assets – equity release plans**

Through the Property Plan agreements of the subsidiary company, Retirement Plus Property Plans Limited, the Group owns rights to increasing beneficial interests in residential properties in the United Kingdom. The values of these interests are, subsequent to initial recognition at cost, measured at fair value with value changes recognised in the income statement. In accordance with paragraph 43 of IAS 39, directly attributable transaction costs are excluded from the initial cost of financial assets which are fair valued through the income statement. The fair value is based on the estimated vacant possession value of each property and the Group's share of the beneficial interest in the property.

The fair value of financial assets is based on a valuation by Allsop LLP, an independent valuer, who holds a recognised and relevant professional qualification and has recent experience in the location and category of the asset being valued.

**Financial assets at fair value through profit or loss**

Passive investments listed on a recognised investment exchange are designated on initial recognition as financial assets at fair value through profit or loss. The fair value of the investments is determined by reference to quoted market prices at the close of business on the balance sheet date. Gains or losses arising from changes in the fair values of financial assets are recognised in the income statement in the period in which they arise.



**MILTON HOMES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the period ended 31 December 2009**

---

**1. Accounting policies (continued)**

**Property, plant and equipment**

Fixtures and equipment are stated at cost less accumulated depreciation and any impairment loss. Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method, on the following basis:

Office and IT equipment - 33%

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstance indicate that the carrying value may not be recoverable, and are written down immediately to their recoverable amount. Useful lives and residual values are renewed annually and where adjustments are required, these are made prospectively.

An item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected to arise from continued use of the asset. Any gain or loss arising on the derecognition of the asset is included in the income statement in the period of derecognition.

**Leases**

Leases taken by the Group are assessed individually as to whether they are finance leases or operating leases. Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Properties leased out to tenants under operating leases are included in investment properties in the balance sheet and accounted for in accordance with the accounting policy on investment property.

**Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method, on the following basis:

Software development - 20%

The amortisation period and the amortisation method for an intangible asset are reviewed at least at each financial period end. Changes in the expected useful life or the expected pattern of consumption of future economic benefit embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The carrying value of intangible assets is reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recovered.

**Derivative financial instruments**

When it considers appropriate, the Group uses interest rate derivatives to mitigate the risk of adverse interest rate fluctuations. Such derivative instruments are initially recognised at fair value on the date on which a swap contract is entered into and subsequently re-measured at fair value. The fair value of interest rate contracts is determined by reference to the market for similar instruments.

**MILTON HOMES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the period ended 31 December 2009**

---

**1. Accounting policies (continued)**

**Derivative financial instruments (continued)**

Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Gains and losses arising from changes in the fair value of derivatives are recognised in the income statement in finance income and finance expense, respectively.

**Trade and other receivables**

Trade receivables are carried at the lower of their original invoiced value and recoverable amount.

**Loans and other receivables**

Loans and other receivables are non-derivative assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and other receivables are subsequently carried at amortised cost using the effective interest method less any allowance for impairment.

Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and other receivables are derecognised or impaired, as well as through the amortisation process.

**Impairment of loans and other receivables**

The Group assesses at each balance sheet date whether loans and other receivables are impaired.

If there is objective evidence that an impairment loss on loans and other receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate (ie the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognised in the income statement.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, demand deposits and other short-term highly-liquid investments that are readily convertible to known amounts of cash and are subjected to insignificant risk of changes in value. These include the RBS Collections Account which holds property disposal proceeds for 3 months to cover interest costs as a priority.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

**Trade and other payables**

Trade and other payables are stated at cost.

**MILTON HOMES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the period ended 31 December 2009**

---

**1. Accounting policies (continued)**

**Current tax**

The tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on the taxable profit for the year. Taxable profit differs from net profit, as reported in the income statement, because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

**Deferred tax**

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax liabilities against current tax assets and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

**Interest bearing loans and borrowings**

Obligations for loans and borrowings are recognised when the Group becomes party to the related contracts and are measured initially at fair value less directly attributable transaction costs. After initial recognition, loans and borrowings are subsequently measured at amortised cost using the effective interest rate method.

A capital reserve is established for the estimated value of the related interest forgone on non-interest bearing loans.

Gains and losses on the repurchase, settlement or cancellation of liabilities are recognised in finance income and finance expense, respectively.

**MILTON HOMES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the period ended 31 December 2009**

---

**1. Accounting policies (continued)**

**Pension costs**

Pension costs in respect of contributions to the Self-Invested Personal Pension plan arrangements of certain employees, together with employer contributions to the Group's stakeholder pension arrangements, are charged to the income statement as incurred

**Deferred purchase consideration on acquisition of reversionary interests in investment property**

The Group has entered into loan agreements with certain tenants which are repaid by way of monthly instalments over the term of the agreement ("Deferred purchase consideration") The loans are recognised when the Group becomes party to the related contract and are measured initially at fair value less directly attributable transaction costs After initial recognition, deferred purchase consideration is measured at amortised cost using the effective interest method

The loans are repaid in the event of death, vacation from the property or at the Group's request, generally in response to receipt of a request for repayment from the tenant

**Derecognition of financial liabilities**

A financial asset or liability is derecognised when the contract that gives rise to it is settled, sold, cancelled or otherwise expires

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts, together with any costs or fees incurred, is recognised in the income statement

**Revenue recognition**

Profits on the sale of reverted properties are recognised on completion of the sale and are included in income Profits on disposal are calculated as net sales proceeds less the carrying value of the Group's beneficial interest in the properties determined with reference to the most recent valuation

The gain or loss on the revaluation of investment properties and equity release plan financial assets, following the independent valuation of the Group's reversionary interests, is recognised in the income statement in the period in which it arises

Equity Transfer Rate ("ETR") income represents the recognition in the income statement of the increase in the Group's beneficial interest in the properties underlying the equity release plan financial asset portfolio in accordance with the contractual terms of the Retirement Plus Property Plan ETR income is recognised on a monthly basis over the term of the plan until the Group's beneficial interest reaches the maximum set out in each individual Property Plan This increase in value is recognised as part of other income in the income statement

Rental income from reverted investment property is recognised in the income statement on a straight-line basis over the unexpired lease term

**MILTON HOMES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the period ended 31 December 2009**

---

**1. Accounting policies (continued)**

**Revenue recognition (continued)**

Sundry income includes consultancy fees levied on an ad hoc basis for services provided and fees charged to tenants and homeowners. Asset management and consultancy fee income is recognised when the services are performed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

**2. Critical accounting judgements and key sources of estimation and uncertainty**

In the process of applying the Group's accounting policies as described above, management have made the following judgements and estimations that have the most significant effect on the amounts recognised in the financial statements:

*Fair value of investment properties*

Investment property is stated at fair value as at the balance sheet date. Gains or losses arising from changes in the fair values are included in the income statement in the year in which they arise. The fair value of the Company's investment properties is determined by independent real estate valuation experts Allsops using recognised valuation techniques. These techniques comprise taking the equity owned vacant possession market value and applying a discount percentage. The discount percentage is based upon a number of factors over which judgements have had to be made. These judgements include estimated life expectancy of the current tenants, current marketability rating in the particular area, and whether there is a single or joint tenancy. In some cases, the fair values are determined based on recent real estate transactions with similar characteristics and location to those of the Company's assets, including those properties which have become vacant and are in the process of being sold.

Investment properties also include those properties which have become vacant and are in the process of being sold.

*Fair value of financial assets – equity release plans*

Equity release plans are stated at fair value as at the balance sheet date. Gains or losses arising from changes in the fair values are included in the income statement in the year in which they arise. The fair value of the Company's equity release plans is determined by independent real estate valuation experts Allsops using recognised valuation techniques. These techniques comprise taking the equity owned vacant possession market value and applying a discount percentage. The discount percentage is based upon a number of factors over which judgements have had to be made. These judgements include estimated life expectancy of the current tenants, current marketability rating in the particular area, and whether there is a single or joint tenancy. In some cases, the fair values are determined based on recent real estate transactions with similar characteristics and location to those of the Company's assets, including those properties which have become vacant and are in the process of being sold.

**MILTON HOMES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the period ended 31 December 2009**

**2. Critical accounting judgements and key sources of estimation and uncertainty (continued)**

*Fair value of parent company interest-free loans*

The Group has estimated the fair value of interest-free loans from the parent company by calculating the present value of each loan with an interest rate comparable to that in the market for a similar loan. A capital reserve is established for the related interest forgone by the parent company.

*Fair value of loans*

The Group has estimated the fair value of loans by calculating the present value of each loan with an interest rate comparable to that in the market for a similar loan.

*Deferred tax asset*

Significant management judgement is required to determine the amount of deferred tax assets arising from unused tax losses that can be recognised. Management reassesses unrecognised deferred tax assets at each balance sheet date. Based upon the likely timing and level of future taxable profits, management has concluded that no deferred tax asset should be recognised at 31 December 2009 (31 December 2008: £nil). The amount of unrecognised deferred tax losses, together with capital allowances not yet claimed and other temporary differences at 31 December 2009 was £9,113,000 (31 December 2008: £9,113,000). Management will closely monitor opportunities for the recoverability of these tax losses, reassessing the opportunity to recognise deferred tax assets at subsequent balance sheet dates.

**3 Segmental analysis**

No geographical or business segmental analysis has been prepared by the Directors as they consider that only the one segment exists. All the Group's activities are performed within the United Kingdom and in the home reversion sector of the equity release market.

**4. Other income**

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Equity Transfer Rate income	<b>2,339</b>	1,620
Rental income	<b>2</b>	5
Gain / (Loss) on revaluation of financial assets at fair value through the profit or loss	<b>190</b>	(986)
Easement income	-	50
Dividend income	-	12
Sundry income	<b>1</b>	25
	<b><u>2,532</u></b>	<b><u>726</u></b>

**MILTON HOMES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the period ended 31 December 2009**

**5. Operating profit / (loss)**

The operating profit / (loss) is stated after charging

	<b>2009</b>	2008
	<b>£'000</b>	£'000
Depreciation of property, plant and equipment	<b>45</b>	60
Amortisation of intangible assets	<b>37</b>	38
Impairment of goodwill	-	-
Re-documentation costs	-	-
Impairment of loans	-	59
Auditors' remuneration		
- audit fees	<b>62</b>	102

In accordance with the Directors' determination that the purchased goodwill, the excess of consideration paid over the fair value of assets acquired, arising on the acquisition of Retirement Plus Limited best represented the cost of acquiring a portfolio of financial assets comprised of equity release plans, the goodwill was fully impaired on acquisition

Legal and professional fees were incurred re-documenting asset management and distribution agreements prior to FSA authorisation of the home reversion market

**6. Information regarding directors and employees**

	<b>2009</b>	2008
	<b>£'000</b>	£'000
Employment costs, including Directors' emoluments, are as follows		
Wages and salaries	<b>1,174</b>	1,400
Social security costs	<b>123</b>	167
Other pension costs	<b>100</b>	111
	<b>1,397</b>	1,678

	<b>2009</b>	2008
	<b>No.</b>	No
The average number of persons, including executive Directors, employed by the Group is analysed below		
Sales	<b>2</b>	4
Administration	<b>15</b>	19
	<b>17</b>	23

The number of employees at the year end was 8 (2008 21)

**MILTON HOMES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the period ended 31 December 2009**

**7. Finance income**

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Bank interest receivable	<b>18</b>	209
Realised gain on cancellation of interest rate derivatives	-	314
Interest receivable on other loans	-	59
	<u><b>18</b></u>	<u><b>582</b></u>

**8. Finance expense**

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Interest and other charges payable on bank loans	<b>2,178</b>	5,141
Bank facility fees	<b>130</b>	80
Interest payable on other loans	<b>48</b>	55
Bond discount	<b>1,847</b>	1,662
Shareholders' loan interest	<b>332</b>	-
	<u><b>4,535</b></u>	<u><b>6,938</b></u>

Included in Shareholders' loan interest for the period ended 31 December 2009 is £332,000 of notional interest expense on the interest-free loans from the ultimate parent companies. The charge for the period ended 31 December 2009 reflects the acceleration of interest notionally payable through to the original repayment date on 18 August 2012 of the 3-year loan.



**MILTON HOMES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the period ended 31 December 2009

**9 Taxation**

**Group**

	2009 £'000	2008 £'000
<u>Analysis of tax credit for the period</u>		
Deferred tax credit	-	-
Tax credit for the period	-	-

The effective rate of corporation tax for the period varies from the standard rate in the United Kingdom (28%) as applied to the Group's pre-tax profit for the reasons analysed below

	2009 £'000	2008 £'000
<u>Reconciliation of total tax charge / (credit)</u>		
Profit / (Loss) on ordinary activities before tax	435	(27,377)
Loss for the year multiplied by the standard rate of corporation tax in the United Kingdom ((28%) (2008 28%))	122	(7,666)
<u>Factors affecting the tax charge / (credit) for the period:</u>		
Expenses not deductible for tax purposes	58	(15)
Income not taxable	(1,647)	(145)
Loss on revaluation of assets non-deductible	(53)	276
Other tax adjustments	(418)	-
Chargeable gains	123	253
Deferred tax asset not recognised	-	7,297
Taxation losses carried forward	1,815	-
	-	-

The Group has an unrecognised deferred tax asset of £8,925,558 (2008 £9,113,000) in respect of tax losses together with capital allowances not yet claimed and other temporary differences

**Company**

The Company has an unrecognised deferred tax asset of £773,260 (2008 £402,000) in respect of tax losses and other temporary differences

**MILTON HOMES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the period ended 31 December 2009

**10. Investment properties**

	No.	2009 £'000	No	2008 £'000
Valuation at beginning of period	674	59,709	665	76,631
Additions	22	2,226	42	3,922
Disposals	(50)	(6,104)	(33)	(6,082)
Revaluations	-	5,340	-	(14,762)
Valuation at end of period	646	61,171	674	59,709

Investment property is acquired through equity release home reversion plans whereby the seller is granted a lifetime lease of the investment property. The plan ends upon the death of the tenant or a permanent move into long-term residential care.

The fair value of the Company's investment property has been determined on a market value basis in accordance with International Valuation Standards (IVS), as set out by the IVSC (subject to lifetime occupancy rights). As set out in Note 2, in arriving at their estimates of market values, the valuers have used their market knowledge and professional judgement and not only relied on historical transactional comparables.

The valuations were performed by the qualified valuer Allsop LLP, an accredited independent firm of chartered surveyors, in accordance with guidance issued by the Royal Institution of Chartered Surveyors, and with recent experience in the location and category of the investment property being valued.

One third of the independently valued properties are inspected externally. For each sample dwelling Allsop has arrived at a market value on the assumption of vacant possession using a conventional approach of comparable analysis. Where properties are not inspected, Allsop has applied a composite average of relevant house prices indices to the value when previously inspected by them.

The equity owned vacant possession market value has a discount percentage applied to arrive at the reversionary interest subject to the existing life tenancy. The discount percentage is based upon a number of factors including estimated life expectancy (based upon the Government Actuary's Department Interim Life Tables for the years 2003 – 2005), marketability rating and whether there is a single or joint tenancy.

There are no restrictions on the realisability of investment properties. There are currently no obligations to purchase, construct, or develop the investment property.

**11 Financial assets – equity release plans**

	No.	2009 £'000	No	2008 £'000
Valuation at beginning of period	383	29,763	211	18,070
On acquisition of subsidiary undertaking	-	-	-	-
Additions	12	1,208	177	14,817
Equity transfer	-	2,339	-	1,620
Cancellations	(12)	(1,238)	(5)	(1,352)
Revaluations	-	(854)	-	(3,392)
Valuation at end of period	383	31,218	383	29,763

**MILTON HOMES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the period ended 31 December 2009**

**11 Financial assets – equity release plans (continued)**

The fair value of the Company's Property Plan assets has been determined on a market value basis in accordance with International Valuation Standards (IVS), as set out by the IVSC (subject to lifetime occupancy rights). As set out in Note 2, in arriving at their estimates of market values, the valuers have used their market knowledge and professional judgement and not only relied on historical transactional comparables

The valuations were performed by the qualified valuer Allsop LLP, an accredited independent firm of chartered surveyors, in accordance with guidance issued by the Royal Institution of Chartered Surveyors, and with recent experience in the location and category of the property being valued

One third of the independently valued properties are inspected externally. For each sample dwelling Allsop has arrived at a market value on the assumption of vacant possession using a conventional approach of comparable analysis. Where properties are not inspected, Allsop has applied a composite average of relevant house prices indices to the value when previously inspected by them.

The equity owned vacant market value has a discount percentage applied to arrive at the reversionary interest subject to the existing property plans. The discount percentage is based upon a number of factors including estimated expected life expectancy (based upon the Government Actuary's Department Interim Life Tables for the years 2003-05), marketability rating and whether there is a single or joint tenancy.

**12. Investment in subsidiary undertakings**

	<b>£'000</b>
<u>Cost</u>	
At 1 January 2009	36,887
Shares issued by subsidiary undertakings in settlement of inter company loans	22,440
	<hr/>
At 31 December 2009	59,327
	<hr/>
<u>Provision</u>	
At 1 January 2009	26,848
Provision for diminution in value of investment	(1,222)
	<hr/>
At 31 December 2009	25,626
	<hr/>
<u>Carrying amount</u>	
At 31 December 2009	33,701
	<hr/>
At 31 December 2008	10,039
	<hr/>

**MILTON HOMES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the period ended 31 December 2009

**12 Investment in subsidiary undertakings (continued)**

Details of the investments in which the Company holds 20% or more of the nominal value of any class of share capital are as follows

	<u>Country of incorporation</u>	<u>% equity interest</u>	<u>Class of shares</u>
<u>Home reversion plan provider</u>			
Living Plus Limited	United Kingdom	100	Ordinary
Living Plus Assets Limited	United Kingdom	100	Ordinary
Retirement Plus Property Plans Limited	United Kingdom	100	Ordinary
<u>Home reversion plan arranger and administrator</u>			
Retirement Plus Limited	United Kingdom	100	Ordinary
<u>Non-trading Jersey trusts*</u>			
Radcliffe Unit Trust (L)	Jersey	100	Units
Radcliffe Unit Trust (R)	Jersey	100	Units
Equity Reversions Unit Trust 2	Jersey	100	Units
Milton Home Trust	Jersey	100	Units

\* The Jersey trusts are owned by the subsidiary undertaking Living Plus Assets Limited  
These interests were terminated in August 2009

On 30 October 2008, Retirement Plus Property Plans Limited and Living Plus Assets Limited each issued to the Company £9,000,000 ordinary shares and £14,389,000 ordinary shares of £1 each, respectively, in settlement of amounts outstanding on inter company loans

The provision for diminution in value of the investment in the subsidiary undertaking recognises the current weakness of the UK residential property market and writes down the Company's investment in the subsidiary undertakings, Living Plus Limited, Living Plus Assets Limited, Retirement Plus Limited and Retirement Plus Property Plans Limited, to their net asset values, which have been adversely impacted by unrealised revaluation losses on their portfolios of equity release plan financial assets during the year

In the opinion of the Directors, the aggregate value of the investment in subsidiary undertakings is not less than the amount at which it is stated in the balance sheet, and these investments have not been written up above their original cost

**MILTON HOMES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the period ended 31 December 2009**

**13. Property, plant and equipment**

	<b>Office and IT equipment £'000</b>
<u>Cost</u>	
At 1 January 2009	187
Disposals	(46)
Additions	59
	<hr/>
At 31 December 2009	200
	<hr/>
<u>Accumulated depreciation</u>	
At 1 January 2009	144
Disposals	(46)
Charge for the period	44
	<hr/>
At 31 December 2009	142
	<hr/>
<u>Carrying amount</u>	
<b>At 31 December 2009</b>	<b>58</b>
	<hr/> <hr/>
At 31 December 2008	44
	<hr/> <hr/>

**14. Intangible assets**

	<b>Software development £'000</b>
<u>Cost</u>	
At 1 January 2009 and 31 December 2009	176
	<hr/>
<u>Accumulated amortisation</u>	
At 1 January 2009	97
Charge for the period	38
	<hr/>
At 31 December 2009	135
	<hr/>
<u>Carrying amount</u>	
<b>At 31 December 2009</b>	<b>41</b>
	<hr/> <hr/>
At 31 December 2008	79
	<hr/> <hr/>

**MILTON HOMES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the period ended 31 December 2009

**15 Derivative financial instruments**

	2009 £'000	2008 £'000
<u>Financial assets</u>		
Interest rate CAPS/SWAPS	-	-
	<u>          </u>	<u>          </u>
<u>Financial liabilities</u>		
Interest rate SWAPS	-	-
	<u>          </u>	<u>          </u>

On 3 July 2008 the Barclays interest rate CAPS/SWAPS were cancelled following the early repayment of the Barclays Bank revolving facility

**16. Financial assets at fair value through profit or loss**

***Group and Company***

	£'000
Valuation at 31 December 2008	602
Additions	86
Disposals	(878)
Revaluation	190
	<u>          </u>
Valuation at 31 December 2009	-
	<u>          </u>

At the end of December 2008, the Company owned 560,000 issued ordinary shares of £1 each of Sovereign Reversions plc. The shares were designated upon initial recognition as financial assets at fair value through profit or loss. These shares have now been sold on 30 September 2009.

**17. Loans receivable**

***Group***

	2009 £'000	2008 £'000
<u>Current</u>		
Loans receivable	-	762
	<u>          </u>	<u>          </u>

These loans are unsecured, held at amortised cost less any allowance for impairment and are non-interest bearing. The initial fair value of the loans is calculated as the present value using an interest rate comparable to that in the market for a similar loan. The loans became due and payable in May 2007, and have been repaid during the year.

**MILTON HOMES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the period ended 31 December 2009**

**17. Loans receivable (continued)**

**Group (continued)**

The loans are reviewed at each period end and impaired to their recoverable amount. At the 31 December 2009 loans with a nominal value of £nil (2008 £557,000) were impaired and fully provided for. The loans were impaired after assessing that the financial condition of the borrower will affect its ability to pay its debts as they fall due.

The movement in the provision for the impairment of loans was as follows:

	2009 £'000
At 1 January 2009	557
Charge for the period	-
Repayment	(557)
<b>At 31 December 2009</b>	<b>-</b>

<b>Company</b>	2009 £'000	2008 £'000
<u>Non-current</u>		
Loans to subsidiary undertakings	<u>65,990</u>	<u>21,599</u>

An analysis of the movement on loans receivable is as follows:

	2009 £'000	2008 £'000
At 1 January 2009	21,599	18,352
Loans to FSA regulated subsidiary undertakings	16,379	27,902
Loans to non-regulated subsidiary undertakings	51,771	150
Interest capitalised	2,888	275
Repayments by regulated subsidiary undertakings	(2,500)	-
Repayments by non-regulated subsidiary undertakings	-	(200)
Loan waived	(1,309)	-
Current account balances netted off prior to capitalisation	(398)	(1,491)
Share capital issued by subsidiary undertakings in settlement of borrowings	(22,440)	(23,389)
<b>At 31 December 2009</b>	<b><u>65,990</u></b>	<b><u>21,599</u></b>

The loans provided to FSA regulated subsidiary undertakings to bolster the eligible capital can only be repaid with the prior approval of FSA, are unsecured and held at amortised cost less any allowance for impairment. Interest is levied at LIBOR plus an additional annual margin. On 31 March and 30 September 2009 respectively, Living Plus Limited and Retirement Plus Limited respectively, issued to the Company £2,189,571 and £20,250,051 ordinary shares of £1 each, in settlement of their amounts outstanding at the time.

**MILTON HOMES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the period ended 31 December 2009

**18 Trade and other receivables**

	<b>Group</b>		<b>Company</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Trade receivables	2	228	-	11
Amounts due from group companies	2	2	5	8
Accrued interest on group company loans	-	-	329	1,283
Prepayments and accrued income	46	134	2	11
	<b>50</b>	<b>364</b>	<b>336</b>	<b>1,313</b>

**19. Trade and other payables**

	<b>Group</b>		<b>Company</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Trade payables	301	352	92	-
Other tax and social security	103	47	-	1
Amounts due to group companies	-	-	708	21
Accrued interest on loans from group companies	-	-	15	54
Accruals and deferred income	628	2,633	367	87
	<b>1,032</b>	<b>3,032</b>	<b>1,182</b>	<b>163</b>

**20 Interest bearing loans and borrowings**

	<b>Group</b>		<b>Company</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<u>Current</u>				
Bank overdraft	-	-	-	-
Bank loans	-	25,292	-	-
Bonds issued to parent company	-	26,188	-	26,188
Parent company loans	-	-	-	-
Group company borrowings	-	-	-	5,168
Deferred purchase consideration	98	97	-	-
	<b>98</b>	<b>51,577</b>	<b>-</b>	<b>31,356</b>



**MILTON HOMES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the period ended 31 December 2009

**20 Interest bearing loans and borrowings (continued)**

	<b>Group</b>		<b>Company</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<u>Non-current</u>				
Wholly repayable within 10 years				
Bank loans	<b>67,347</b>	39,854	<b>67,347</b>	-
Parent company loans	<b>22,689</b>	-	<b>22,689</b>	-
Group company borrowings	-	-	<b>5,426</b>	-
Deferred purchase consideration	<b>638</b>	767	-	-
	<b>90,674</b>	40,621	<b>95,462</b>	-

Except where purchased with cash or with deferred purchase consideration, investment property is pledged as collateral to secure the Royal Bank of Scotland plc loans. As at 31 December 2009 the fair value of investment property not pledged as collateral was £1,379,000 (2008 £1,379,000)

The Group borrows in Sterling at floating rates of interest

*Royal Bank of Scotland plc ("RBS") loans*

RBS provided three borrowing facilities to the Group, namely a £54 million term credit facility ("Facility A"), a £6 million annual liquidity facility ("Facility B") and a £25 million annual revolving credit facility ("ERUT facility"). Facility A, with currently available funds of £42.5 million, has a 10-year term, repayable in 2014. Annual repayments are made pursuant to management's annual cash flow forecast. Facility B is a liquidity facility with £6 million available to meet interest and expenses arising in respect of Facility A. Both Facility B and the ERUT facility have a 364-day term, capable of being renewed annually.

On 19 August 2009 the above mentioned facilities were refinanced and replaced with a new £68 million three-year amortising facility with RBS, repayable on 19 August 2012 and capable of being extended a further two years. The facility is secured over all group assets and undertakings and bears interest at LIBOR plus a 2.5% per annum margin.

*Parent Company Loan*

DV3 Limited provided to Milton Homes Limited a £63,000,000 revolving loan under a subordinated loan agreement dated 19 August 2009. At 31 December 2009 the loan outstanding was £22,689,000.

*Undrawn committed borrowings*

As at 31 December 2009, the Group had available £40,311,000 (2008 £8,441,000) of undrawn committed bank borrowing facilities.

**MILTON HOMES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the period ended 31 December 2009**

**20 Interest bearing loans and borrowings (continued)**

*Bond issued to parent company*

The Company had issued deep discount bonds to the parent companies DV3 Limited and DV4 Limited with an aggregate nominal value of £28,125,000 at 31 December 2008. The bonds were unsecured, subject to a discount and were redeemed during 2009.

*Deferred purchase consideration*

Deferred purchase consideration represents annuities payable to tenants where consideration for a property has taken the form, in some part, of a commitment by the Group to pay monthly cash instalments over a set period. The last of these instalments is payable in 2025. The effective interest rate is 5.95%.

**21. Financial instruments**

The Group's principal financial instruments comprise cash, loans receivable, financial assets – equity release plans, bank loans, interest rate derivatives, parent company borrowings and deferred purchase consideration. Cash and cash equivalents are considered to be cash at bank and cash in hand. The main purpose of these financial instruments is to finance the acquisition of investment property and equity release plan assets, and to meet operating, administrative and finance costs.

The Group has various other financial instruments, such as trade payables, that arise directly from its operations. It is the Group's policy that no speculative trading in financial instruments is undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, credit risk and market risk. There is no currency risk as all financial instruments are held in Sterling. The Financial and Risk Review on page 14 includes an explanation of the Group's objectives and policies with regard to financial instruments and the management of risk.

**Group**

*Interest rate risk profile of financial assets and liabilities*

31 December 2009

	Within 1 year £'000	1-5 years £'000	More than 5 years £'000	Total £'000
<u>Floating rate</u>				
Cash	2,649	-	-	2,649
Loans receivable	-	-	-	-
Bank loans	-	(67,955)	-	(67,955)
Bonds issued to parent company	-	-	-	-
<u>Fixed rate</u>				
Financial assets – equity release plans	-	-	31,218	31,218
Deferred purchase consideration	(98)	(306)	(332)	(736)

**MILTON HOMES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the period ended 31 December 2009

**21. Financial instruments (continued)**

***Group (continued)***

31 December 2008

	Within 1 year £'000	1-5 years £'000	More than 5 years £'000	Total £'000
<u>Floating rate</u>				
Cash	4,499	-	-	4,499
Loans receivable	762	-	-	762
Bank loans	(25,292)	(15,051)	(24,803)	(65,146)
Bonds issued to parent company	(26,188)	-	-	(26,188)
<u>Fixed rate</u>				
Financial assets – equity release plans	-	-	29,763	29,763
Deferred purchase consideration	(97)	(331)	(436)	(864)

\* Notional principal amounts Interest on financial instruments classified as floating rate is repriced at intervals of less than one year Interest on interest rate hedges classified as fixed rate is fixed until the maturity of the instrument

***Company***

*Interest rate risk profile of financial assets and liabilities*

	Within 1 year £'000	1-5 years £'000	More than 5 years £'000	Total £'000
<u>31 December 2009</u>				
<u>Floating rate</u>				
Cash	-	-	-	-
Bank Loans	-	(67,955)	-	(67,955)
Loans to subsidiary undertakings	-	65,990	-	65,990
Loans from subsidiary undertakings	-	(5,426)	-	(5,426)

<u>Fixed rate</u>				
Bonds / Loans issued to parent company	-	(22,689)	-	(22,689)

31 December 2008

<u>Floating rate</u>				
Cash	465	-	-	465
Bank Loans	-	-	-	-
Loans to subsidiary undertakings	-	21,599	-	21,599
Loans from subsidiary undertakings	-	(5,168)	-	(5,168)
<u>Fixed rate</u>				
Bonds issued to parent company	(26,188)	-	-	(26,188)

**MILTON HOMES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the period ended 31 December 2009

**21 Financial instruments (continued)**

*Fair values of financial assets and financial liabilities*

The Directors consider that there are no material differences between the carrying values and the fair values of the Group's financial assets and liabilities at each period end

*Market risk*

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit / (loss) before tax (through the impact on floating rate borrowings) There is no impact on the Group's equity

	Increase/ decrease in basis points	Effect on (loss)/profit before tax £'000
<u>Year ended 31 December 2009</u>		
Sterling	+25	(170)
Sterling	-25	170
<u>Year ended 31 December 2008</u>		
Sterling	+25	(157)
Sterling	-25	157

**22 Share capital**

<b>Group and Company</b>	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
<u>Authorised</u>		
100,000,000 (2007 100,000,000) ordinary shares of £1 each	<u>100,000</u>	<u>100,000</u>
	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
<u>Allotted, Issued &amp; fully paid</u>		
At 31 December 2009	<u>29,955</u>	<u>29,955</u>
	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
<u>Executive Share Option Scheme</u>		
At 31 December 2009	<u>-</u>	<u>(1)</u>

**MILTON HOMES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the period ended 31 December 2009

**23. Reserves**

<b>Group</b>	<b>Share premium reserve £'000</b>	<b>Capital reserve £'000</b>	<b>Other reserves £'000</b>	<b>Retained earnings £'000</b>
At 1 January 2009	133	5,449	(4,837)	(30,107)
Profit for the year	-	-	-	435
Parent company capital contribution	-	2,301	-	-
RBS Warrants	-	-	55	-
<b>At 31 December 2009</b>	<b>133</b>	<b>7,750</b>	<b>(4,782)</b>	<b>(29,672)</b>

<b>Company</b>	<b>Share premium reserve £'000</b>	<b>Capital reserve £'000</b>	<b>Other reserves £'000</b>	<b>Retained earnings £'000</b>
At 1 January 2009	133	796	-	(28,384)
Loss for the year	-	-	-	(1,472)
Parent company capital contribution	-	2,301	-	-
RBS Warrants	-	-	55	-
<b>At 31 December 2009</b>	<b>133</b>	<b>3,097</b>	<b>55</b>	<b>(29,856)</b>

The Company has taken advantage of the exemption provided under section 230 of the Companies Act 2006 not to publish its individual income statement and related notes

Reserves are defined as follows

Share premium reserve represents amounts subscribed for issued share capital in excess of nominal value

The capital reserve comprises interest forgone on non-interest bearing loans made available by the ultimate parent company

Other reserves is a non-distributable reserve created when Milton Homes Limited acquired DV3 RAM Limited on 9 July 2007 as part of a group reorganisation  
The additional £55k in 2009 relates to the Royal Bank of Scotland Share Warrants for the potential issuance of 926,431 Ordinary 'B' Shares in Milton Homes Limited

Retained earnings are the cumulative net gains and losses recognised in the consolidated income statement

**MILTON HOMES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the period ended 31 December 2009**

**24 Notes to the cash flow statements**

For the purpose of the cash flow statement, cash and cash equivalents comprise the following

	<b>Group</b>		<b>Company</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Cash at bank and on hand	<b>2,649</b>	4,499	-	465
Bank overdraft	-	-	-	-
	<b>2,649</b>	<b>4,499</b>	<b>-</b>	<b>465</b>

An analysis of net debt within interest bearing loans and borrowings is as follows

<b>Group</b>	<b>2009</b> <b>£'000</b>
<u>Royal Bank of Scotland credit facilities</u>	
At 1 January 2009	65,146
New debt drawn down	-
Repayments	(65,146)
	-
<u>2009 Royal Bank of Scotland credit facility</u>	
At 1 January 2009	-
New debt drawn down	68,000
Prepayment of Arrangement Fees	(608)
Repayments	(45)
	67,347
<u>Deep discounted bonds / Parent company loans</u>	
At 1 January 2009	26,188
Bonds redeemed	(26,188)
New loans issued	22,357
Interest capitalised	332
	22,689
<u>Deferred purchase consideration</u>	
At 1 January 2009	864
Payments	(128)
	736
<b>Total interest bearing loans and borrowings</b>	<b>91,380</b>

**MILTON HOMES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the period ended 31 December 2009**

**24. Notes to the cash flow statements**

	2009 £'000
<b><u>Company</u></b>	
<u>2009 Royal Bank of Scotland credit facility</u>	
At 1 January 2009	-
New debt drawn down	68,000
Prepayment of Arrangement Fees	(608)
Repayments	(45)
	67,347
<u>Deep discounted bonds / Parent company loans</u>	
At 1 January 2009	26,188
Bonds redeemed	(26,188)
New loans issued	22,357
Interest capitalised	332
	22,689
At 31 December 2009	22,689
<u>Group company borrowings</u>	
At 1 January 2009	5,168
New debt drawdown	1,700
Interest capitalised	178
Repayment	(1,620)
	5,426
At 31 December 2009	5,426
Total interest bearing loans and borrowings	96,070

**25. Related party transactions**

During the year, the Group redeemed the deep discounted bonds to the parent companies, and secured new loans with DV3 Limited and DV4 Limited of £22,357,000

DV3 Limited provided to Milton Homes Limited a £63,000,000 revolving loan under a subordinated loan agreement dated 19 August 2009. At 31 December 2009 the loan outstanding was £22,689,000

At 31 December 2009 Retirement Plus Estates Limited, an immediate parent company, owed the Group £nil (2008 £2,000) for reimbursement of expenses. The company was placed into liquidation in April 2008 and the current account was settled as part of the final distribution.

**MILTON HOMES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the period ended 31 December 2009**

---

**25. Related party transactions (continued)**

Transactions with key management personnel (comprising the Executive Directors) are disclosed below

	<b>31 December 2009 £'000</b>	<b>31 December 2008 £ '000</b>
Short-term employee benefits	<u><b>700</b></u>	<u><b>725</b></u>

During the periods under review DV3 Limited has paid the following fees on behalf of the Group

	<b>31 December 2009 £'000</b>	<b>31 December 2008 £'000</b>
Aborted listing fees	-	1,368
Professional fees incurred in respect of group reorganisations	-	28
Professional fees incurred in respect of indemnity and subscription agreements	-	5
Professional fees incurred in respect of 31 March Allsop valuation	<u>-</u>	<u>4</u>

**26 Post balance sheet events**

There have been no significant post balance sheet events