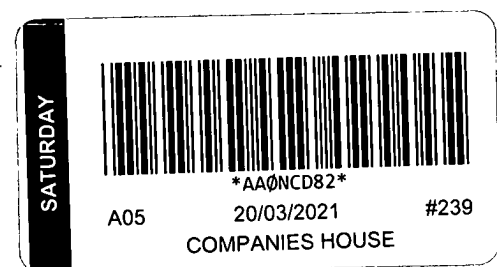


ANNINGTON RENTALS LIMITED

Annual Report and Financial Statements

For the year ended 31 March 2020



ANNINGTON RENTALS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

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ANNINGTON RENTALS LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 March 2020. The directors' report has been prepared in accordance with the provisions applicable to companies entitled to the small companies exemption under the Companies Act 2006. A strategic report has not been prepared in accordance with the exemption entitled to small companies under s414 of the Companies Act 2006.

DIRECTORS

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

A P Chadd
J C Hopkins
A R J Needham
N P Vaughan

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

FUTURE DEVELOPMENTS AND GOING CONCERN

Future developments and other factors not under the control of the Company, including the effects of Britain exiting the European Union and those of the COVID-19 pandemic, may impact on the ongoing operations of the business, however, the directors expect the business to continue, for the foreseeable future, in a manner consistent with its historical operations.

The Company operates in the real estate sector in the United Kingdom. In certain circumstances, the Company may have reason to look to parent entity or wider Annington Limited group ('The Group') support to continue as a going concern for the foreseeable future. The company has assessed parent entity and wider group's ability to provide this support.

Critical to the Group's future as a going concern is the ability to service and repay its debt. For the foreseeable future, at least until the maturity of the Euro denominated tranche of Notes in 2024, the Group only needs to pay the interest on the debt. The debt has a number of covenants to comply with under both the bonds and loan facility. The covenants attaching to the debt are:

Covenant	Test	Limit for Bonds	Limit for Loans
Limitation on Debt	Total debt / Total assets	<65%	<65%
Limitation on Secured Debt	Secured debt / Total assets	<40%	<40%
Interest Cover Ratio	EBITDA / Interest	1.0x (dividend lockup at 1.3x)	1.15x (dividend lockup at 1.3x)
Unencumbered Assets	Unencumbered assets / Unsecured Debt	>125%	>125%

On 26 March 2020, an agreement to amend the terms of the £400 million unsecured term loan was entered into. The maturity of the term loan and the revolving credit facility is now extended to March 2025, from July 2022, whilst the undrawn revolving credit facility is reduced to £100 million. This agreement became effective on 1 April 2020, with the modifications applicable from that date. The Group's forecasts do not indicate any of these covenants will be breached in the foreseeable future. Further, the Group's forecasts do indicate that sufficient cash flow will be generated to cover payments of interest on its debt and generate significant additional free cash flows to allow for reinvestment or potential dividends to shareholders. Further, were this not possible, cash reserves and the undrawn revolving credit facility provides additional liquidity to the Group to allow the continued operation for the foreseeable future. The Group is satisfied that sufficient actions are available to mitigate any potential adverse impact on covenant compliance in the event of any reasonably foreseeable unfavourable outcome to the ongoing site review process.

ANNINGTON RENTALS LIMITED

DIRECTORS' REPORT (continued)

The Group meets its day-to-day working capital requirements from both rental income and property sales. In uncertain economic environments, such that there is uncertainty over the level of demand for properties, comfort is gained that the rental income is sufficient to meet debt service requirements without the need for sales. A significant number of units could become void and the Group would still be able to service its debt obligations from the remaining rental income.

The Group receives cash on a quarterly basis in relation to its long-term rental of investment properties. The lengthy timeframes for the rent review and site review processes mean that the effects of market movements are averaged over these cycles and significant movements will take a while to impact the results of the Group. For example, the effect of the Site Review on rent will become effective for the first tranche in December 2021 with one further tranche per year until December 2024. The forecast receipts of rent in the year ahead will be sufficient to meet short-term cash requirements. In making these forecasts and considering the issue of going concern, the Board has taken into account the effects of the UK's exit from the European Union and of COVID-19. Possible downside effects considered included falling house prices, falling rental values, increased arrears from tenants. In all circumstances, cash reserves and rental receipts from the MoD were sufficient to fund the ongoing operations of the group.

After making enquiries, including seeking assurances from the company's parent entity and receiving confirmation that it will provide financial assistance if required, the Directors have a reasonable expectation that the Company has access to adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Financial Statements.

DIVIDEND

No dividends have been paid or proposed during the year (2019: £500,000).

PRINCIPAL ACTIVITIES

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

FINANCIAL RISK MANAGEMENT

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

AUDITOR

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

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

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

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

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



A P Chadd
Director
21 August 2020

REGISTERED OFFICE

1 James Street
London, United Kingdom
W1U 1DR

ANNINGTON RENTALS LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ANNINGTON RENTALS LIMITED

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Annington Rentals Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 March 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the balance sheet;
- the statement of changes in equity; and
- the related Notes 1 to 16.

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

Basis for opinion

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

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

Emphasis of matter – Investment property

We draw attention to note 8, which describes the effects of the uncertainties created by the coronavirus (COVID-19) pandemic on the valuation of the company's investment property portfolio. As noted by the Company's external valuers, the outbreak has caused extensive disruptions to the real estate market and economic activities, and the uncertainties created have increased the estimation uncertainty over the fair value of the investment property portfolio at the balance sheet date. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

Other information

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

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

We have nothing to report in respect of these matters.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ANNINGTON RENTALS LIMITED (continued)

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to take advantage of the small companies' exemption in preparing the directors' report and from the requirement to prepare a strategic report.

We have nothing to report in respect of these matters.

Use of our report

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



Richard Howe FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
21 August 2020

ANNINGTON RENTALS LIMITED

INCOME STATEMENT

For the year ended 31 March 2020

	Note	2020 £	2019 £
Property rental income	4	297,230	301,268
Property operating expenses		(71,962)	(73,316)
Net rental income	4	225,268	227,952
Unrealised property revaluation loss	8	(180,000)	(170,960)
Operating profit	5	45,268	56,992
Finance costs	6	(11,624)	(382)
Profit before taxation		33,644	56,610
Taxation (charge)/credit	7	(17,756)	29,063
Profit after taxation for the year		15,888	85,673
Profit attributable to shareholder		15,888	85,673

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

ANNINGTON RENTALS LIMITED

BALANCE SHEET At 31 March 2020

	Note	2020 £	2019 £
Non-current assets			
Investment properties	8	6,358,000	6,538,000
Current assets			
Receivables	9	464	255
Deferred tax	7	-	17,756
		464	18,011
Total assets		<u>6,358,464</u>	<u>6,556,011</u>
Current liabilities			
Trade and other payables	10	(3,655)	(9,630)
Loans and borrowings	11	(33,708)	(241,168)
		(37,363)	(250,798)
Net current liabilities		<u>(36,899)</u>	<u>(232,787)</u>
Total liabilities		<u>(37,363)</u>	<u>(250,798)</u>
Net assets		<u>6,321,101</u>	<u>6,305,213</u>
Capital and reserves			
Share capital	12	-	-
Capital reserve		7,320,000	7,320,000
Retained earnings	13	(998,899)	(1,014,787)
Total equity		<u>6,321,101</u>	<u>6,305,213</u>

The accompanying notes (1 to 16) should be read in conjunction with these financial statements.

The financial statements of Annington Rentals Limited, registered number 03818324, were approved by the Board of Directors and authorised for issue on 21 August 2020.

Signed on behalf of the Board of Directors



A P Chadd
Director

ANNINGTON RENTALS LIMITED

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2020

	Note	Share capital £	Capital reserve £	Retained earnings £	Total equity £
At 1 April 2018		-	7,820,000	(1,100,460)	6,719,540
Profit attributable to shareholder, being total comprehensive income for the year		-	-	85,673	85,673
Dividends paid	14	-	(500,000)	-	(500,000)
Balance at 31 March 2019		-	7,320,000	(1,014,787)	6,305,213
Profit attributable to shareholder, being total comprehensive income for the year		-	-	15,888	15,888
Balance at 31 March 2020		-	7,320,000	(998,899)	6,321,101

ANNINGTON RENTALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

1. CORPORATE INFORMATION

Annington Rentals Limited ("the Company") is a company incorporated in the United Kingdom under the Companies Act 2006. The Company is a private company limited by shares and is registered in England and Wales. The address of its registered office is 1 James Street, London, United Kingdom, W1U 1DR. Information on the Company's ultimate parent is presented in Note 16.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

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

Exemptions for qualifying entities under FRS 101

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

- certain comparative information as otherwise required by EU-adopted International Financial Reporting Standards, including an opening balance sheet;
- certain disclosures regarding the Company's capital;
- a statement of cash flows;
- certain disclosures in respect of financial instruments;
- the effect of future accounting standards not yet adopted; and
- disclosure of related party transactions with wholly-owned members of the Group.

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

Going concern After making enquiries, the directors have reasonable expectation that the Company have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and the Financial Statements.

Further details regarding the adoption of the going concern basis are to be found in the Directors' Report.

New Standards, interpretations and amendments effective from 1 April 2019

No new standards, amendments or interpretations, effective for the first time for the financial year beginning on or after 1 April 2019, have had a material impact on the Company, however, given that it operates as a lessor, the effects of the adoption of IFRS 16 are discussed below.

IFRS16 Leases

In the current year, the Company has applied IFRS 16 (as issued by the IASB in January 2016) that is effective for the annual periods that begin on or after 1 January 2019. This standard replaces IAS 17 Leases.

The Company operates as a lessor of investment properties and these leases were classified as operating leases under IAS 17. The accounting requirements for lessors under IFRS 16 remain largely unchanged from those under IAS 17. As such, no change in lessor accounting has been effected and no transition adjustments were made on adoption of IFRS 16 in relation to these leases.

ANNINGTON RENTALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement

Certain of the Company's accounting policies and disclosures require the measurement of fair values. Fair values are categorised into three different levels in a fair value hierarchy, in accordance with IFRS 13 Fair Value Measurement, and is based on the inputs used in the valuation techniques as follows:

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

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

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

Further information regarding the assumptions made in measuring fair values is included in Note 8.

Critical accounting judgements and key sources of estimation uncertainty

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

Key sources of estimation uncertainty

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

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

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

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

The Company had no employees of its own during the year (2019: none). The cost of performing work for the Company is borne by another group company, Annington Management Limited.

ANNINGTON RENTALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020 (continued)

4. PROPERTY AND NET RENTAL INCOME

ACCOUNTING POLICY

Property rental income - Revenue recognition

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

	2020	2019
	£	£
Property rental income	297,230	301,268

Net rental income

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

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

5. OPERATING PROFIT

ACCOUNTING POLICY

Operating profit is stated before finance income and finance costs.

The auditor's remuneration was £6,600 (2019: £5,600) for the audit of the Company's annual financial statements and was borne by another group company in the current and preceding year.

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

6. FINANCE COSTS

ACCOUNTING POLICY

Finance costs, including any transaction costs, are charged to the income statement using the effective interest rate method.

	2020	2019
	£	£
Interest payable on intercompany balances	(11,624)	(382)

ANNINGTON RENTALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020 (continued)

7. TAXATION

ACCOUNTING POLICY

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

Current tax

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

Deferred tax

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

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

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

	2020 £	2019 £
Current tax		
United Kingdom corporation tax at 19% (2019: 19%)	-	-
Deferred tax		
Deferred taxation: origination and reversal of temporary differences	(17,756)	29,063
Total taxation for the year	<u>(17,756)</u>	<u>29,063</u>

The standard rate of current tax for the year, based on the UK standard rate of corporation tax is 19% (2019: 19%). The tax credit for the current and charge for the previous year differ from the standard tax rate for the reasons set out in the following reconciliation:

	2020 £	2019 £
Profit before taxation	33,644	56,610
Tax charge at the standard rate	(6,392)	(10,756)
Factors affecting the current tax for the year:		
Group relief claimed	41,425	42,911
Impairment adjustment not subject to tax	-	327
Expenses not deductible for tax purposes	(833)	-
Revaluation of investment properties	(34,200)	(3,419)
Deferred tax release due to NRCGT exemption	(17,756)	-
Total taxation for the year	<u>(17,756)</u>	<u>29,063</u>

ANNINGTON RENTALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020 (continued)

7. TAXATION (continued)

The rate of Corporation Tax for the UK had previously been set at 17% and this had been enacted at the time of preparing the March 2019 financial statements, accordingly the deferred tax at 31 March 2019 had been calculated at this rate. However, in the March 2020 Budget it was announced that the reduction will not occur and the Corporation Tax Rate will be held at 19%. In March 2020, this was enacted, with calculations of both current and deferred tax balances using the 19% rate for 31 March 2020.

Deferred tax

The movement in deferred tax is as set out below:

	2020 £	2019 £
Deferred tax liability at 1 April	17,756	(11,307)
(Charge)/credit to the income statement	(17,756)	29,063
Deferred tax asset at 31 March	-	17,756

Deferred tax balances at 31 March 2020 are measured at 19% (2019: 17%).

Annington Limited's immediate parent entity, Annington Holdings (Guernsey) Limited (AHGL) has confirmed to the Board of Annington Limited that to attract new investment into the Annington Group it is an Open Ended Investment Company (OEIC). Further AHGL has informed Annington Limited that it qualifies as a Collective Investment Vehicle (CIV) and has made an exemption election under the Non Resident Capital Gains Tax (NRCGT) legislation. An exemption election, designed to prevent multiple layers of taxation within a structure which would otherwise be borne by all investors, may be made by a CIV which has a genuine diversity of ownership (GDO) pursuant to the Authorised Investment Funds (Tax) Regulations 2006. The effect of which is that the CIV's investors and subsidiaries do not pay capital gains tax on property disposals, electing instead to pay capital gains tax on distributions by the CIV. AHGL has confirmed that it has met the GDO condition and the election took effect from 6 April 2019.

Following the election, the investors in AHGL have assumed liability for capital gains taxes covering AHGL and all its subsidiaries. Annington Limited and its subsidiaries will be exempt from capital gains tax on property disposals from the above effective date. A consequence of this is the derecognition within these accounts of the deferred tax liabilities relating to capital gains tax as at 31 March 2020.

ANNINGTON RENTALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020 (continued)

8. INVESTMENT PROPERTIES

ACCOUNTING POLICY

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

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

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

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

	Investment properties £
2020	
Valuation	
At 1 April	6,538,000
Unrealised property revaluation loss	(180,000)
Total fair value at 31 March	<u>6,358,000</u>

Properties would have been included on an historical cost basis at £5,226,959 (2019: £5,226,959).

As at 31 March 2020 there were no (2019: nil) investment properties classified as held for sale.

	2020 £	2019 £
The net book value of investment properties and investment properties held for sale comprises:		
Freehold	6,254,000	6,424,000
Long leasehold	<u>104,000</u>	<u>114,000</u>
	<u>6,358,000</u>	<u>6,538,000</u>

Substantially all direct property operating expenses related to properties that generated income during the year and amounted to £71,962 (2019: £73,316).

Each of the company's freehold and leasehold interests in its investment properties was valued as at 31 March 2020 by an External Valuer, Martin Angel FRICS of Allsop Valuations Limited ("AVL"), a subsidiary of Allsop LLP ("Allsop"). The valuation, which was prepared on a portfolio basis, was subject to the existing leases, under-leases and tenancies as advised, but was otherwise valued with vacant possession.

ANNINGTON RENTALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020 (continued)

8. INVESTMENT PROPERTIES (continued)

The valuer's opinion was derived with reference to recent market transactions on arm's length terms. It was undertaken in accordance with the requirements of IFRS 13, Fair Value Measurement and the RICS Valuation - Global Standards 2017, as amended. The Covid-19 crisis has dealt a major economic shock which the real estate markets are still absorbing and reacting to. Market activity is being impacted in many sectors. As at the valuation date of 31 March 2020, AVL consider that less weight can be attached to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to Covid-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement. AVL's valuation is therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case.

This is a 'Regulated Purpose Valuation'. Allsop, and latterly AVL have provided annual valuations of elements of the portfolio in the past. Both have a policy of rotating the valuer not less frequently than every seven years. In accordance with that policy, Martin Angel resumed responsibility for the valuation in 2019, with 2020 being the second year in the current rotation. AVL have confirmed that, in relation to their most recent financial year, the proportion of Allsop's total fee income arising from the Annington Group was less than 5%, which may be regarded as minimal.

Assumptions and valuation models used by the valuers are derived from market based evidence for comparable transactions, taking into account factors such as a property's location, size, potential yield and prevailing discount rates. These are based on their professional judgement and market observation.

The fair value measurement hierarchy level for all investment properties as at 31 March 2020 was Level 3 significant unobservable inputs (2019: Level 3). There were no transfers between the levels of the fair value hierarchy during the current or prior year.

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

2020	Fair value £	Unobservable inputs	Range
Assured shorthold & other bulk tenancies			
Fair value	6,358,000		
Valuation technique		Vacant possession market comparison	
		Rental discount rates (%)	0.0% - 5.3%
Fair value at 31 March 2020	6,358,000		

The 2019 valuation was derived from applying the valuation movements of a sample of properties across the remainder of the portfolio. Key assumptions used in that valuation were:

2019	Fair value £	Unobservable inputs	Range
Assured shorthold & other bulk tenancies			
Fair value	6,538,000	Vacant possession market comparison	
Valuation technique		Rental discount rates (%)	0.0% - 5.5%
Fair value at 31 March 2019	6,538,000		

ANNINGTON RENTALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020 (continued)

8. INVESTMENT PROPERTIES (continued)

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

Operating lease arrangements

The Company has entered into property lease agreements on its investment properties portfolio and has performed an evaluation of the terms and conditions of the arrangements of these leases. This includes factors such as the lease term not constituting a substantial portion of the economic life of the property and the present value of the minimum lease payments not amounting to substantially all of the fair value of the property. The Company also retains all the significant risks and rewards of ownership of these properties. As such, all of these leases are accounted for as operating leases.

At 31 March 2020, the Company had contracted with tenants for the following future minimum lease payments:

	2020 £	2019 £
Within one year	23,740	26,147
	<u>23,740</u>	<u>26,147</u>

9. RECEIVABLES

ACCOUNTING POLICY

Trade and other receivables are initially recognised at fair value when the Company becomes entitled to receive the contractual cash flows and are subsequently measured at amortised cost using the effective interest method less any impairment.

Impairment provisions for receivables are recognised based on a forward looking expected credit loss model.

	2020 £	2019 £
Amounts falling due within one year		
Prepayments	464	255
	<u>464</u>	<u>255</u>

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

The carrying value of receivables approximates the fair value.

ANNINGTON RENTALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020 (continued)

10. TRADE AND OTHER PAYABLES

ACCOUNTING POLICY

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

	2020 £	2019 £
Trade payables	2,230	8,205
Accruals	1,425	1,425
	<u>3,655</u>	<u>9,630</u>

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

11. LOANS AND BORROWINGS

ACCOUNTING POLICY

Loans and borrowings are initially recognised at fair value less the transaction costs directly attributable to their issue. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method, such that discounts and costs are charged to the income statement over the term of the borrowing at a constant return on the carrying amount of the liability. The debt and associated accrued interest is classified as current and non-current based on the contractual payments required within 12 months of the balance sheet date.

	2020 £	2019 £
Amounts due within 12 months		
Amounts due to group undertakings	<u>33,708</u>	<u>241,168</u>

Amounts due to group undertakings are unsecured, interest bearing at 8.02% (2019: 8.02%) and became due on 31 March 2020 (2019: 31 March 2020). On 1 April 2020, the borrowings were replaced by loans of the same value that are unsecured, with an interest rate to be agreed from time-to-time between the parties and have no fixed repayment date.

12. SHARE CAPITAL

	2020 £	2019 £
Authorised, issued and fully paid		
1 ordinary share of 1p	<u>0.01</u>	<u>0.01</u>

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

ANNINGTON RENTALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020 (continued)

13. RETAINED EARNINGS

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

	2020 £	2019 £
Distributable earnings	(2,129,940)	(2,343,583)
Non-distributable earnings	1,131,041	1,328,796
	<u>(998,899)</u>	<u>(1,014,787)</u>

14. DIVIDENDS

	2020 £	2019 £
Dividends declared and paid	-	500,000
Dividends per share	-	500,000
	<u>-</u>	<u>500,000</u>

15. RELATED PARTY DISCLOSURES

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

16. CONTROLLING PARTY

Annington Rentals (Holdings) Limited, a company incorporated in the United Kingdom, is the immediate parent company.

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

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