



**ANNUAL REPORT AND FINANCIAL
STATEMENTS**

for the Year Ended

31 March 2019

Lowther Homes Limited

Registered number SC402836

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the financial year ended 31 March 2019.

Principal activities

Lowther Homes Limited (Lowther" or "the Company") is a wholly owned subsidiary of Wheatley Housing Group Limited ("Wheatley Group"). Lowther provides mid and full-market rent homes to let. It owns a growing portfolio of 1,183 full and mid market rent homes in communities from Inverkip to Leith and manages a further 647 mid market rent homes owned by fellow Wheatley Group subsidiaries, The Glasgow Housing Association Limited ("GHA"), Cube Housing Association Limited ("Cube") and Dunedin Canmore Housing Limited ("Dunedin Canmore").

Lowther Homes annual highlights

Lowther continued to grow its portfolio of affordable homes, acquiring new properties and being appointed to let and manage more homes on behalf of subsidiaries in Wheatley, as well as a new partner, the City of Edinburgh Council.

At the end of the year we owned or managed over 1,800 homes in 11 local authority areas with rents ranging from £350 to £1,470 per month.

We maintained a strong business and financial performance despite ongoing economic uncertainty. Our net rental income for the year was £11.5m, compared with £10.0m in 2017/18.

Our healthy financial performance meant that we donated via gift aid £1.6m to the Wheatley Foundation to support its charitable programmes in disadvantaged communities across central Scotland.

As we moved into 2019/20, we did so with exciting plans, firstly, to work with our partners to bring hundreds of more affordable homes to our communities and, secondly, to merge with YourPlace Property Management Limited to form a single company covering letting, factoring and commercial properties.

New homes

During the year Lowther Homes bought 562 homes for mid-market rent from three Registered Social Landlords in Wheatley thanks to a ground-breaking funding deal.

Scottish Widows, through its partnership with the Bank of Scotland's Real Estate and Housing team, provided £76.5million of investment, to enable Lowther to buy the homes. This meant that Glasgow Housing Association, Cube Housing Association and Dunedin Canmore Housing will be able to use the proceeds to build 700 additional new homes for social rent. The deal, the first of its type in Scotland, also strengthened Lowther's asset base.

By the end of March 2019, Lowther had also been appointed to let and manage a further 258 new build homes on behalf of Wheatley's subsidiaries.

DIRECTORS' REPORT (CONTINUED)

This included:

- 36 homes in Hinshelwood, and a further 24 at Ibroxholm Oval in Ibrox, Glasgow;
- 23 homes at Ballantyne Place and Craigtarrie Mews, Balerno, Edinburgh;
- 4 homes in North Berwick;
- 45 homes at Batson Street, Glasgow;
- 27 homes at Leighton Street, Ruchill, Glasgow; and
- 7 homes in Greendykes, Edinburgh.

Our new homes continue to be very popular, for example, all the Hinshelwood properties were let within two days of being released.

We continue to review carefully the performance of the properties in our portfolio. As a result we sold, or are in the process of selling, 18 homes in Inverkip and Old Kilpatrick.

Breakdown of our property numbers

	Lowther Homes owned	Leased from Group subsidiaries
Mid market properties	534	634
Full market properties	649	13
Total	1,183	647

New business developments

Lowther Homes is now registered with the Scottish Government as a property factor. This is one of the first steps in preparation for us joining forces with Wheatley's factoring division, YourPlace Property Management Limited.

This will create one commercial business that brings together private letting, factoring and commercial properties in one unique business.

In January 2019, City of Edinburgh Council appointed Lowther Homes, on behalf of a new partnership Edinburgh Homes, to let, manage and maintain a portfolio of 1,500 mid and full rent market new build homes over the next three years.

The first 22 homes at Clermiston in Edinburgh were let in February 2019, with a further 79 homes due to be ready in 2019/20 in Haliesland, Greendykes and Pennywell Town Centre.

Our performance

We continued to achieve a strong business performance across a number of areas. For example, our mid-market rent properties took, on average, 4.4 days to let, compared with 7.0 days the previous year. Full market properties took less than 17 days to let compared with our target of 20 days.

Our gross rent arrears stood at 2.26%, an improvement on the 2.88% at the end of 2017/18.

We also finished the year with 100% of our properties having received their annual gas safety check by their anniversary date.

DIRECTORS' REPORT (CONTINUED)

This year Lowther Homes became a member of the Scottish Landlords Association and accredited as a letting agent with Landlord Accreditation Scotland. Staff are all trained as qualified letting agents with the National Approved Letting Scheme or due to complete their qualification this year.

Engaging with customers

Lowther's digital channels continued to grow in popularity with more customers than ever before engaging with us online.

The number of people visiting www.lowtherhomes.com each month increased to over 4,100 – up from 3,500 the previous year – with nearly 1,380 website enquiries.

The number of customers registered for online self-services at the end of the financial year increased to 822 from 260 in the previous 12 months.

Customers found it quick and easy to pay their bills, report repairs and check their balance 24/7 using a *MyLowther* online account. More than £677k was paid online by customers using *MyLowther*.

Directors

The Directors of the Company who were in office during the financial year and up to the date of the financial statements were:

Ronnie Jacobs (Chair)

Tom Barclay – resigned 26 November 2018

Steven Henderson – resigned 17 June 2019

Ian Wall

Gordon Sloan

Tom Mitchell

John Blackwood – appointed 23 January 2019

Bryan Duncan – appointed 17 January 2019

Sheila Gunn – appointed 26 November 2018

Michael McCabe – appointed 26 November 2018

Liz Walford – appointed 26 November 2018

Disclosure of information to auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he/she 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.

Independent auditor

In accordance with Section 485 of the Companies Act 2006, the directors have agreed to re-appoint KPMG LLP as auditor.

Basis of preparation

This report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006. As such, the Company has taken exemption from preparing a strategic report.

DIRECTORS' REPORT (CONTINUED)

Going concern

The £76.5m loan facility from The Bank of Scotland Plc and Scottish Widows made available through Wheatley Funding No.2 Limited ("WFL2"), together with operational cash generation, provides sufficient funds to allow the Company to meet its current liabilities and fund the on-going operation and maintenance of its existing investment property portfolio. Each year the Company updates its long-term business plan which sets out its long term financial forecasts including growth opportunities. This business plan demonstrates that sufficient funds are available to meet the Company's liabilities as they fall due.

Under the loan facility agreement, WFL2, Lowther Homes and YourPlace Property Management are equal guarantors to the arrangement and equally liable for amounts due.

There are therefore no material uncertainties related to events or conditions that cast significant doubt upon the Company's ability to continue as a going concern.

FINANCIAL REVIEW

Lowther generated an operating surplus of £29.7m in 2019 (2018: £6.2m). This includes grant income recognised on the acquisition of MMR properties in the year of £15.2m and a £10.3m gain on the value of our investment properties held (2018: £3.3m).

Statement of Comprehensive Income

Turnover

Turnover, generated from rental income net of void losses, was £11.5m for the year ended 31 March 2019 (2018: £10.0m). The year on year growth was largely driven by growth in the mid-market letting portfolio and the full year income on the acquisition at Ferry Village.

Operating expenditure and finance charges

Operating expenditure and finance charges in the year totalled £10.5m (2018: £11.0m). This comprised:

- £7.3m administrative costs, which includes the maintenance costs of the property portfolio, associated with the full and mid-market letting activities (2018: £7.2m); and
- £3.2m in financing charges in relation to the financing charges on the loan facility through Wheatley Funding No. 2 Ltd which is secured against our properties (2018: £3.9m). The Wheatley Foundation has agreed to deliver certain charitable community programmes on the Wheatley Group's behalf. Under this arrangement, these programmes were funded in part during the year by the Glasgow Housing Association agreeing that the interest receipt due from Lowther would be paid directly to the Wheatley Foundation. This payment has been recognised as gift aid in the financial statements of Lowther.

A charge of £0.8m (2018: £1.6m) is included within financing charges as required under FRS 102 in respect of unwinding of the deemed discount on the convertible loan instrument with Glasgow Housing Association Limited.

Lowther made a gift aid payment of £1.6m to the Wheatley Foundation during the year.

DIRECTORS' REPORT (CONTINUED)

Other gains recognised in Statement of Comprehensive Income

The strong letting performance of Lowther Homes' portfolio of private market rented properties, combined with favourable market conditions in its selected operating locations, resulted in a gain on revaluation of investment properties of £10.3m (2018: £3.3m). In addition, the 562 mid-market properties acquired from The Glasgow Housing Association Limited, Dunedin Canmore Housing Association Limited and Cube Housing Association Limited on 31 October 2018 resulted in a recognition of £15.2m of grant income on the acquisition of MMR units from Wheatley RSLs. In accordance with FRS 102, the total income and gains of £25.5m are recognised through the Statement of Comprehensive Income in profit and loss.

Statement of Financial Position

Properties held for investment at the end of 31 March 2019 were valued at £139.2m (2018: £63.1m). Additions of £65.9m were made in the year with the properties acquired from the Wheatley RSLs and units purchased at Ferry village in Renfrewshire. Properties were valued at 31 March 2019 by JLL and this resulted in an increase of £10.3m.

Principal risks facing the Company

The Board is responsible for assessing the risks facing Lowther. As a subsidiary of Wheatley Housing Group Limited, the principal risks are broadly similar to those facing the Group and can be seen in the consolidated financial statements of the Group.

DIRECTORS' REPORT (CONTINUED)

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

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 they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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 estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

By order of the Board



Elizabeth Walford, Director

30 August 2019

Wheatley House
25 Cochrane Street
Glasgow
G1 1HL

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LOWTHER HOMES LIMITED

Opinion

We have audited the financial statements of Lowther Homes Limited ("the company") for the year ended 31 March 2019 which comprise the Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Financial Position and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Directors' Report

The directors are responsible for the directors' report. Our opinion on the financial statements does not cover that report and we do not express an audit opinion thereon.

Our responsibility is to read the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the directors' report;
- in our opinion the information given in that report for the financial year is consistent with the financial statements; and
- in our opinion that report has been prepared in accordance with the Companies Act 2006.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LOWTHER HOMES LIMITED (continued)

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required 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; or
- the directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 7, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

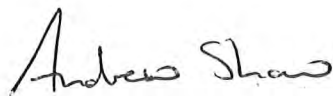
Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.



Andrew Shaw (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
319 St Vincent Street,
Glasgow, G2 5AS

17 September 2017

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**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2019**

	<i>Note</i>	2019 £'000	2018 £'000
Turnover		11,509	9,989
Operating expenses		(7,316)	(7,161)
Other income and gains	4	25,546	3,335
Operating profit	2	<u>29,739</u>	<u>6,163</u>
(Loss)/gain on disposal of fixed assets	5	(1)	57
Finance charges	6	(3,170)	(3,880)
Profit before taxation		<u>26,568</u>	<u>2,340</u>
Tax charge	7	(1,827)	(252)
Profit for the financial year		<u>24,741</u>	<u>2,088</u>

All amounts relate to continuing operations.

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2019**

	Revenue Reserve £'000	Investors' Equity £'000	Total £'000
Balance at 1 April 2017	2,685	8,210	10,895
Profit for the year	2,088	-	2,088
Movement in equity component of intragroup convertible loan	-	38	38
Gift aid payment	(369)	-	(369)
Balance at 31 March 2018	<u>4,404</u>	<u>8,248</u>	<u>12,652</u>
Profit for the year	24,741	-	24,741
Movement in equity component of intragroup convertible loan	-	38	38
Gift aid payment	(1,550)	-	(1,550)
Balance at 31 March 2019	<u>27,595</u>	<u>8,286</u>	<u>35,881</u>

The notes on pages 12 to 21 form part of these financial statements.

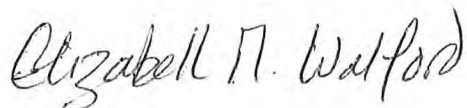
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STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2019

	<i>Note</i>	2019 £'000	2018 £'000
Fixed Assets			
Property, plant and equipment	8	49	61
Investment properties	9	139,156	63,120
Total Fixed Assets		139,205	63,181
Current Assets			
Trade and other debtors	10	970	781
Cash at bank and in hand		2,557	390
Total Current Assets		3,527	1,171
Creditors: amounts falling due within one year	11	(2,575)	(3,301)
Net Current Assets/(Liabilities)		952	(2,130)
Total Assets		140,157	61,051
Creditors: amounts falling due after one year	12	(104,276)	(48,399)
Net Assets		35,881	12,652
Equity			
Investors' Equity		8,286	8,248
Revenue reserve		27,595	4,404
Equity and reserves		35,881	12,652

This report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006.

The financial statements were approved by the Board of Directors on 19 August 2019 and signed on its behalf on 30 August 2019 by:



Elizabeth Walford, Director

The notes on pages 12 to 21 form part of these financial statements.

Company Registration Number SC402836.

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

Lowther Homes Limited (the “Company”) is a private company incorporated, domiciled and registered in Scotland in the UK. The registered number is SC402836 and the registered address is Wheatley House, 25 Cochrane Street, Glasgow, G1 1HL.

The following accounting policies have been applied consistently in dealing with items that are considered material in relation to the Company’s financial statements to all period presented in these financial statement.

Basis of preparation

The financial statements have been prepared on a going concern basis, in accordance with the Companies Act 2006 and applicable accounting standards in United Kingdom including Financial Reporting Standard 102, under the historical cost convention modified to include the revaluation of properties held for letting and commercial properties. The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The Company’s ultimate parent undertaking, Wheatley Housing Group Limited includes the Company in its consolidated financial statements. The consolidated financial statements of Wheatley Housing Group are available to the public and may be obtained from Wheatley House, 25 Cochrane Street, Glasgow, G1 1HL. In these financial statements, the company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the period; and
- Cash Flow Statement and related notes.

As the consolidated financial statements of the ultimate parent undertaking include the disclosures equivalent to those required by FRS 102, the Company has also taken the exemptions available in respect of the following disclosures:

- Certain disclosures required by FRS 102.11 *Basic Financial Instruments* and FRS 102.12 *Other Financial Instrument Issues* in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.
- The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Going concern

The £76.5m loan facility provided by the Bank of Scotland Plc and Scottish Widows, together with operational cash generation, provides sufficient funds to allow the Company to meet its current liabilities and fund the on-going operation and maintenance of its existing investment property portfolio. Each year the Company updates its long-term business plan which sets out its long term financial forecasts including growth opportunities. This business plan demonstrates that sufficient funds are available to meet the Company’s liabilities as they fall due. There are therefore no material uncertainties related to events or conditions that cast significant doubt upon the Company’s ability to continue as a going concern.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Accounting policies (continued)

Accounting judgements and estimations

Estimates and judgements are continually evaluated and are based on historical experience, advice from qualified experts where required or appropriate and other factors.

Judgements have been made in:

- Determining the appropriate discount rates used in the valuation of investment properties;
- The assessment of useful lives for other fixed assets; and
- The assessment of the fair value of financial instruments.

Related party disclosures

The Company is a wholly-owned subsidiary of Wheatley Housing Group Limited and is included within the consolidated financial statements of Wheatley Housing Group Limited which are publicly available. Consequently, the Company has taken advantage of the exemption, under the terms of FRS 102, from disclosing related-party transactions with wholly owned entities that are part of the Wheatley Housing Group.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. For investment property that is measured at fair value, deferred tax is provided at the rates and allowances applicable to the sale of the asset/property. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Value Added Tax

The Company is registered for VAT and is a member of the Wheatley VAT Group. Expenditure is shown net of VAT.

Turnover

Turnover relates to rental of residential properties. Income from rental activities is recognised when it is receivable.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Accounting policies (continued)

Valuation of investment property

The directors consider that the interests in land and/or buildings are held for their investment potential rather than for consumption in the business operations. These are treated under FRS 102 as investment properties at fair value through the Statement of Comprehensive Income.

Investment properties in the course of construction are stated at cost. Those properties are transferred to completed properties when they are ready for letting. Investment properties are valued at market value subject to tenancies at the date of the Statement of Financial Position by an independent professional adviser qualified by the Royal Institution of Chartered Surveyors to undertake valuation. Where it is considered that there has been any impairment in value this is recognised in profit or loss in the period it arises. The cost of properties is their purchase price together with capitalised improvement works. No depreciation is provided in respect of investment properties applying the fair value model.

Improvements to investment properties

Improvement expenditure on investment properties is capitalised in circumstances where it is expected to provide incremental future benefits to the organisation, such as higher rent, reduced on-going maintenance costs or reduced re-let times for the properties.

Valuation of property, plant and equipment

Furniture & Fittings and Computer Equipment are stated at cost and depreciated on a straight-line basis as detailed below.

Depreciation

Property, plant and equipment depreciation is charged to the statement of comprehensive income on a straight-line basis over the expected useful lives of fixed assets to write off the cost, or valuation, less estimated residual values at the following annual rates. Assets are depreciated in the month of acquisition, or in the case of a larger project, from the month of completion, at the following rates:

Furniture, fittings and office equipment (cost)	20%
Computer hardware and software (cost)	33.33%

Convertible debt and investors' equity

Proceeds of convertible loans are allocated between liability and equity components. The carrying value of the liability component is determined as the fair value of a similar liability that does not possess a conversion feature. For the purpose of determining an appropriate discount rate, advice was obtained from independent property and investment consultants in relation to the market rate of return on a similar unsecured loan instrument. The discount rate used was 10.8%. The residual amount once the liability component has been established is treated as an equity element, and transaction costs are allocated pro rata against the liability and equity components. This allocation shall not be revised in subsequent periods. The liability component is treated as a basic financial instrument.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

2. Operating profit

	2019 £'000	2018 £'000
Operating profit is stated after charging:		
Auditor's remuneration in respect of the audit of these financial statements	8	8
Depreciation on fixed assets	24	21

The Company has no employees (2018: nil) as staff are employed by another group company and recharged.

3. Remuneration of directors

The directors did not receive any emoluments in respect of their services to the Company (2018: nil). Directors are employed by another group company and no recharge is made for their services.

4. Other income and gains

	2019 £'000	2018 £'000
Grant income recognised on acquisition of MMR properties	15,204	-
Gain on revaluation of investment property	10,342	3,335
	25,546	3,335

5. Gain on disposal of fixed assets

This represents net income from the disposal of fixed assets.

	2019 £'000	2018 £'000
Proceeds from disposal of properties	167	164
Value of properties disposed	(168)	(107)
(Loss)/gain on sale of fixed assets	(1)	57

6. Finance charges

	2019 £'000	2018 £'000
Interest and related charges on intra-group loan	2,390	2,246
Amortisation of discount on fair value of convertible loan	780	1,634
	3,170	3,880

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NOTES TO THE FINANCIAL STATEMENTS (continued)

7. Tax charge

	2019	2018
	£'000	£'000
Total tax expense recognised in the profit and loss account		
<u>Current Tax:</u>		
Current tax on income for the year	54	120
Adjustment in respect of prior periods	(61)	3
	(7)	123
<u>Deferred Tax:</u>		
Origination and reversal of timing differences	2,022	265
Adjustments in respect of prior periods	(213)	(108)
Effects of changes in tax rates	25	(28)
	1,834	129
	1,827	252
Total tax		

The deferred tax charge of £1,834k has arisen on the valuation of investment properties in the year.

A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) was substantively enacted on 26 October 2015. Further reduction to 18% (effective 1 April 2020) was substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future tax charge accordingly. The deferred tax liability at 31 March 2019 has been calculated based on these rates.

Deferred Tax	Assets		Liabilities		Net	
	2019	2018	2019	2018	2019	2018
	£'000	£'000	£'000	£'000	£'000	£'000
Accelerated capital allowances	-	-	-	-	-	-
Arising on business combinations	-	-	-	-	-	-
Employee benefits	-	-	-	-	-	-
Unused tax losses	-	-	-	-	-	-
Property revaluations	-	-	2,454	620	2,454	620
	-	-	2,454	620	2,454	620
Tax liabilities	-	-	-	-	-	-
Net of tax liabilities	-	-	-	-	-	-
Net tax liabilities	-	-	2,454	620	2,454	620

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NOTES TO THE FINANCIAL STATEMENTS (continued)

7. Tax charge (continued)

Factors affecting the tax charge for the current period

	2019	2018
	£000	£000
Reconciliation of effective tax rate		
Surplus for the year	24,741	2,088
Total tax expense	1,827	252
Surplus excluding taxation	<u>26,568</u>	<u>2,340</u>
Tax using the UK corporation tax rate of 19% (2018: 19%)	5,048	445
Effects of:		
Qualifying charitable donations	(295)	-
Income not taxable	(2,889)	-
Expenses not deductible	(1,810)	380
Deferred tax movement on revaluations	2,022	-
Tax rate changes	(213)	(28)
Prior year adjustments	(36)	(105)
Effect of indexation allowance on chargeable gains	-	(370)
Recognised in equity	-	(70)
Total tax expense included in Statement of Comprehensive Income	<u>1,827</u>	<u>252</u>

8. Property, plant and equipment

	2019
	£'000
Cost	
At 1 April 2018	130
Additions	12
At 31 March 2019	<u>142</u>
Accumulated Depreciation	
At 1 April 2018	69
Charge for financial year	24
At 31 March 2019	<u>93</u>
Net Book Value	
At 31 March 2019	<u>49</u>
Net Book Value	
At 31 March 2018	<u>61</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. Investment properties

	2019 £'000
Cost or Valuation	
At 1 April 2018	63,120
Additions – acquisitions	65,477
Additions – improvements	385
Disposals	(168)
Revaluation	10,342
At 31 March 2019	139,156
 Net Book Value - valuation	
At 31 March 2019	139,156
At 31 March 2018	63,120
 Net Book Value – historic cost	
At 31 March 2019	105,158
At 31 March 2018	54,668

The valuation of investment properties as at 31 March 2019 shown above of £139.2 million (2018: £63.1m) is the market value subject to tenancies, between a willing buyer and willing seller in an arm's length transaction. The valuation was carried out by Jones Lang LaSalle, a qualified professional valuer.

The number of properties held by Lowther Homes Ltd at 31 March was:

	2019 No.	2018 No.
Total Units	1,183	608

10. Trade and other debtors

	2019 £'000	2018 £'000
Due within one year:		
Trade debtors	196	230
Other debtors	774	521
Corporation tax	-	30
	970	781

Amounts owed by group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

Lowther Homes Limited
Annual report and financial statements for the financial year ended 31 March 2019

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. Creditors: amounts falling due within one year

	2019 £'000	2018 £'000
Trade creditors	41	41
Accruals	226	352
Amounts owed to group undertakings	1,500	1,920
Other creditors	765	988
Corporation tax	43	-
	2,575	3,301

Amounts owed to group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

12. Creditors: amounts falling due after more than one year

	2019 £'000	2018 £'000
Financial liability component of intra-group convertible loan	26,129	25,389
Amounts owed to group undertakings	75,693	22,390
	101,822	47,779
Deferred tax	2,454	620
	104,276	48,399

Intra-group convertible loan

The convertible loan with The Glasgow Housing Association Limited ("GHA") is not secured and is due to mature in 2043. The Wheatley Foundation has agreed to deliver certain charitable community programmes on the Glasgow Housing Association's behalf. Under this arrangement, these programmes were funded in part during the year by the Glasgow Housing Association agreeing that the interest receipt due from Lowther Homes Limited would be paid directly to the Wheatley Foundation on its behalf.

Amounts owed to group undertakings

In the period up to 31 October 2018, Lowther had access to a £50.0m facility administered by WFL2. This facility was repaid on 31 October and a new agreement was entered into by WFL2 with Bank of Scotland to provide a facility of £76.5m. This new facility provided the capacity to fund the acquisition of 562 mid-market properties from The Glasgow Housing Association Limited, Dunedin Canmore Housing Association Limited and Cube Housing Association Limited. Interest on the new facility has been charged at a rate of 3.77%.

Borrowings are repayable as follows:

	2019 £'000	2018 £'000
In less than one year	-	2
In more than one year but less than two years	-	2
In more than two years but less than five years	26,129	47,775
In more than five years	75,693	-
	101,822	47,779

NOTES TO THE FINANCIAL STATEMENTS (continued)

13. Financial instruments

	2019 £'000	2018 £'000
Financial assets:		
<u>Measured at amortised cost:</u>		
Debtors and accrued income	970	781
Total	970	781
 Financial liabilities:		
<u>Measured at amortised cost:</u>		
Creditors, accruals and amounts owed to group undertakings	80,722	26,311
 <u>Measured at fair value through income and expenditure:</u>		
Intra-group convertible loan	26,129	25,389
Total	106,851	51,700

Expenses payable on the financial liabilities is disclosed in note 6.

14. Called up share capital

	2019 £	2018 £
<i>Authorised</i>		
Equity: 100 (2018: 100) Ordinary shares of £1 each	100	100
<i>Allotted, called up and fully paid</i>		
Equity: 100 (2018: 100) Ordinary share of £1	100	100

15. Ultimate parent organisation

The Company is a wholly owned subsidiary undertaking of Wheatley Housing Group Limited, a company limited by guarantee and registered in Scotland.

The only group into which the results of the Company are consolidated is Wheatley Housing Group Limited. The consolidated financial statements of Wheatley Housing Group Limited may be obtained from the registered office at Wheatley House, 25 Cochrane Street, Glasgow, G1 1HL.

SUPPLEMENTARY INFORMATION

Secretary and Registered Office

Anthony Allison
Lowther Homes Limited
Wheatley House
25 Cochrane Street
Glasgow G1 1HL

Independent auditor

KPMG LLP
319 St Vincent Street
Glasgow G2 5AS

Bankers

Royal Bank of Scotland
Glasgow Corporate Office
Kirkstane House
139 St Vincent Street
Glasgow G2 5JF