

**AVENELL PROPERTY PLC**  
*(Registered company number 3817411)*

**Report and Financial Statements**

**31 December 2009**

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**REPORT AND FINANCIAL STATEMENTS 2009**

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**OFFICERS AND PROFESSIONAL ADVISERS**

**DIRECTORS**

LDC Corporate Director No 1 Limited  
LDC Corporate Director No 2 Limited

**SECRETARY**

TMF Corporate Secretarial Services Limited

**REGISTERED OFFICE**

Pellipar House  
1<sup>st</sup> Floor  
9 Cloak Lane  
London  
EC4R 2RU

**DIRECTORS' REPORT**

The directors submit their report and the audited financial statements of Avenell Property plc ("the Company") for the year ended 31 December 2009

The directors' report has been prepared in accordance with the provisions applicable to companies entitled to the small companies exemption

**ACTIVITIES**

The company's principal activities are the contribution to a Property Pool, the issuing of a Secured Bond, the granting of security for the Bond, the entering into a Zero Coupon Bond Issuance Facility Agreement, the issuing of the Zero Coupon Bonds, being granted the benefit of a Financial Guarantee, and the disposal of its interests in the Properties on or about the Maturity date (in accordance with the terms of the Property Agreement)

**RESULTS**

The results for the year are set out on page 5 The directors do not recommend the payment of a dividend (2008 £nil)

**DIRECTORS**

The directors set out on page 1 served throughout the year The directors have no interests in the shares of the company or any other company within the group

**REVIEW OF DEVELOPMENTS IN YEAR AND ANTICIPATED FUTURE DEVELOPMENTS**

There have been no significant developments during the year The company has continued to carry out the activities described above and will continue to do so in the future

Zero Coupon Bonds were issued during the year with a nominal value of £6,788,159 (2008 £7,389,862) Interest of £2,045,906 (2008 £2,045,906) was paid to the holders of the secured bonds Retained profit for the year totalled £113,052 (2008 £147,340)

**AUDITORS**

Each of the persons who are a director at the date of approval of this report confirms that

(1) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and

(2) the director has taken all the steps that he/she ought to have taken as a director in order to make him/her aware of any 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 section 418 of the Companies Act 2006

**FINANCIAL INSTRUMENTS**

The company raises finance through the issue of a fixed rate Secured Bond and Zero Coupon Bonds in accordance with its policy to maintain all of its borrowings at fixed rates of interest

The redemption of the Secured Bond and Zero Coupon Bonds are due to mature in 2023 The funding will be initially from the realisation of at least £170 million from the sale of Avenell Property plc's interest in the freeholds, a downturn in property prices may mean this amount is not realised, however Avenell Property plc has the benefit of a financial guarantee from J Sainsbury Plc for the redemption value of the Secured Bond and Zero Coupon Bonds

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



LDC Corporate Director No 1 Limited  
Director  
22 June 2010

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The directors are responsible for preparing 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). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and 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 proper 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 AUDITORS' REPORT TO THE MEMBERS OF AVENELL PROPERTY PLC**

We have audited the financial statements of Avenell Property PLC for the year ended 31 December 2009 which comprise the profit and loss account, the balance sheet, the cash flow statement, and the related notes 1 to 19. These financial statements have been prepared under the accounting policies set out therein.

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 auditors' 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 Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit 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 (APB'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 United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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



Christopher Leck, MA, FCA (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditors  
St Helier, Jersey

23 June 2010

**AVENELL PROPERTY PLC**  
**PROFIT AND LOSS ACCOUNT**  
**Year ended 31 December**

*Registered company number 3817411*

	Note	2009 £'000	2008 £'000
Administrative expenses		(39)	(39)
Other operating income	6	8	17
<b>Operating loss</b>	3	<u>(31)</u>	<u>(22)</u>
Interest receivable and similar income		14	5
Accretion in value of investment	10	4,540	4,205
Interest payable and similar charges	7	<u>(4,396)</u>	<u>(4,041)</u>
		158	169
<b>Profit on ordinary activities before taxation</b>		127	147
Taxation	8	<u>-</u>	<u>-</u>
<b>Profit on ordinary activities after taxation and profit for the financial year</b>		<u>127</u>	<u>147</u>

All results are derived from continuing operations

There are no other recognised gains or losses or movements in shareholders' funds for the current or preceding financial years other than as stated in the profit and loss account and therefore a separate Statement of Total Recognised Gains or Losses has not been presented

The notes on pages 8 to 13 form an integral part of these financial statements

**AVENELL PROPERTY PLC**  
**BALANCE SHEET**  
**As at 31 December**

*Registered company number 3817411*

	Note	2009 £'000	2008 £'000
<b>FIXED ASSETS</b>			
Investments	10	59,686	55,146
<b>CURRENT ASSETS</b>			
Debtors	11	40	40
Cash		4,641	109
		<u>4,681</u>	<u>149</u>
<b>CREDITORS: amounts falling due within one year</b>	12	<u>(6,199)</u>	<u>(1,670)</u>
<b>NET CURRENT LIABILITIES</b>		<u>(1,518)</u>	<u>(1,521)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		58,168	53,625
<b>CREDITORS: amounts falling due after more than one year</b>	13	<u>(56,684)</u>	<u>(52,268)</u>
		<u>1,484</u>	<u>1,357</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	14	50	50
Profit and loss account		1,434	1,307
<b>SHAREHOLDERS' FUNDS</b>	18	<u>1,484</u>	<u>1,357</u>

These financial statements were approved by the Board of Directors on 22 June 2010  
Signed on behalf of the Board



Authorised signatory on behalf of  
LDC Corporate Director No 1 Limited  
Director

The notes on pages 8 to 13 form an integral part of these financial statements



**AVENELL PROPERTY PLC**  
**CASH FLOW STATEMENT**  
**31 December**

*Registered company number 3817411*

	Note	2009 £'000	2008 £'000
<b>NET CASH INFLOW / (OUTFLOW) FROM OPERATING ACTIVITIES</b>	15	4,511	(9)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Interest received		-	5
Interest paid on secured bond		(2,046)	(2,046)
<b>NET CASH INFLOW / (OUTFLOW) FROM INVESTING ACTIVITIES</b>		2,465	(2,050)
<b>CASH INFLOWS FROM FINANCING ACTIVITIES</b>			
Issue of zero coupon bonds		2,067	2,067
Increase in cash in the year		4,532	17
Cash and cash equivalents 1 January		109	92
<b>CASH AND CASH EQUIVALENTS 31 DECEMBER</b>		4,641	109

The notes on pages 8 to 13 form an integral part of these financial statements

**1 INCORPORATION**

The company is registered in England and Wales

**2 ACCOUNTING POLICIES**

The financial statements are prepared in accordance with accounting standards applicable in the United Kingdom. The particular accounting policies adopted are described below

**Accounting convention**

The financial statements are prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards

**Fixed asset investments**

Investments held as fixed assets are initially recorded at cost. The appreciation in value of the company's interest in freeholds underlying the value of the investment, to the extent that the realisation of such appreciation is reasonably certain, will be accreted at a constant periodic rate over the term to maturity of that investment.

In accordance with FRS 26 "Financial Instruments Measurement", the Investments meet the criteria of 'Held to Maturity Investments' and are therefore recorded at amortised cost. The intent and ability of holding the fixed asset investments to maturity will be assessed at each balance sheet date. Any discount relating to the acquisition of the investments will be amortised at a constant periodic rate over the term to maturity of that investment.

**Financing issue costs**

The costs relating to the issue of financial instruments are spread over the term of the instruments at a constant rate on the carrying amount of the debt.

**Interest payable**

Interest on the secured bond is charged to the profit and loss account on an accruals basis. Discount on the zero coupon bonds is recognised on a basis to give a constant yield to maturity.

**Other income**

This comprises of head lease rental and is recognised in the profit and loss account on an accruals basis.

**Foreign currency**

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Transactions on foreign currencies are recorded at the rate ruling at the date of the transaction. All movements are taken to the profit and loss account.

**Deferred taxation**

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

**Capital Management**

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

**Going Concern**

The directors are of the opinion that the Company is a going concern due to the fact that its interest obligations are fulfilled by continuing to issue Zero Coupon Bonds, which will be repaid in 2023 from the proceeds of the sale of its interest in properties. The value of the interests in properties will be no less than £170 million by 2023 as it is supported by a guarantee from J Sainsbury's plc. The Directors are of the continued opinion that J Sainsbury's plc has the ability to finance the guarantee.

**AVENELL PROPERTY PLC**  
**NOTES TO THE ACCOUNTS**  
**31 December 2009**

**Registered company number 3817411**

**3. OPERATING LOSS**

	2009 £'000	2008 £'000
Operating loss is stated after charging:		
Auditors' remuneration	9	9

**4. STAFF NUMBERS AND COSTS**

The company had no employees in 2009 (2008 nil) The directors received no remuneration in 2009 (2008 £nil)

**5. SEGMENTAL ANALYSIS**

The company's income and expenses, profit before tax and net assets all arise in the UK from the sole class of business which is the raising and servicing of finance used to purchase an interest in the Property Pool

**6. OTHER OPERATING INCOME**

	2009 £'000	2008 £'000
Head lease rental	8	17

**7. INTEREST PAYABLE AND SIMILAR CHARGES**

	2009 £'000	2008 £'000
Secured bond interest	2,046	2,046
Zero coupon bond amortisation	2,291	1,936
Issue expenses amortised	59	59
	<u>4,396</u>	<u>4,041</u>

**8. TAXATION**

	2009 £'000	2008 £'000
Based on profits for the year		
Corporation tax at 28% (2008 28%)	-	-

The tax assessed for the period is lower than the standard rate of corporation tax in the UK The differences are explained below

	2009 £'000	2008 £'000
Profit on ordinary activities before tax	127	147
Corporation tax at 28% thereon (2008 28%)	(36)	(41)
<i>Effects of</i>		
Non-taxable unrealised gains on fixed asset investments	1,267	1,172
Deferred tax asset not recognised	(1,231)	(1,131)
Current tax charge for the year	<u>-</u>	<u>-</u>

**AVENELL PROPERTY PLC**  
**NOTES TO THE ACCOUNTS**  
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**9. DEFERRED TAXATION**

There is a net unprovided deferred tax liability of £402k (2008 £366k) relating to

	2009	2008
	£'000	£'000
Interest on revalued properties	(9,012)	(7,741)
Unutilised tax losses	8,610	7,375
	<u>(402)</u>	<u>(366)</u>

It is the company's intention to retain its interest in the properties for the foreseeable future. No deferred tax has been provided as the tax would only be payable if the properties were sold.

A deferred tax asset has not been recognised in relation to the company's tax losses as the company does not anticipate taxable profits arising in the immediate future. The company will benefit from the value of the losses as and when it has taxable income.

**10. FIXED ASSET INVESTMENTS**

	2009	2008
	£'000	£'000
At 1 January	55,146	50,941
Accretion in value in the year	4,540	4,205
At 31 December	<u>59,686</u>	<u>55,146</u>

The company holds an interest as a beneficiary to a trust. The trust assets comprise ownership of freehold commercial properties. This is explained more fully in note 17.

**11. DEBTORS**

	2009	2008
	£'000	£'000
Called up share capital unpaid	37	37
Prepayments	3	3
	<u>40</u>	<u>40</u>

**12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	2009	2008
	£'000	£'000
Accruals	1,676	1,670
Sundry creditors	4,523	-
	<u>6,199</u>	<u>1,670</u>

**AVENELL PROPERTY PLC**  
**NOTES TO THE ACCOUNTS**  
**31 December 2009**

*Registered company number 3817411*

**13. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

	2009 £'000	2008 £'000
£87,886,572 zero coupon bond (2008 £81,098,413)	28,609	24,251
£28,853,000 of 7 0907913% secured bond due 2023	28,075	28,017
	<u>56,684</u>	<u>52,268</u>

The secured bond was issued at par and is secured by a fixed and floating charge over the company's property, assets and undertakings, due to mature March 2023. The secured bond (which is listed on the Irish Stock Exchange) is held by Highbury Finance B V. The zero coupon bonds are issued to and held by Avenell Leasing limited.

**14. CALLED UP SHARE CAPITAL**

	2009 £	2008 £
<b>Authorised</b>		
50,000 ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>
<b>Allotted and called up</b>		
2 ordinary shares of £1 each – fully paid up	2	2
49,998 ordinary shares of £1 each – paid up to £0.25	<u>49,998</u>	<u>49,998</u>
	<u>50,000</u>	<u>50,000</u>

**15. NOTES TO THE CASH FLOW STATEMENT**

a) Reconciliation of operating loss to net cash inflow / (outflow) from operating activities	2009 £'000	2008 £'000
Operating loss	(31)	(22)
Increase in creditors	4,542	13
	<u>4,511</u>	<u>(9)</u>

b) Analysis of changes in net debt

	At 31 December 2008 £'000	Cash flow £'000	Non-cash movements £'000	At 31 December 2009 £'000
Cash	109	4,532	-	4,641
<b>Debt due after one year</b>				
Secured bond 2023	(28,017)	-	(60)	(28,077)
Zero coupon bond	(24,251)	(2,067)	(2,291)	(28,609)
	<u>(52,159)</u>	<u>2,465</u>	<u>(2,351)</u>	<u>(52,045)</u>

c) Reconciliation of net cash flow to movement in net debt	2009 £'000	2008 £'000
Increase in cash	4,532	17
Issue of zero coupon bond	(2,067)	(2,067)
Change in net debt resulting from cash flow	<u>2,465</u>	<u>(2,050)</u>
Amortisation of issue costs	(60)	(60)
Amortisation of zero coupon bonds	<u>(2,291)</u>	<u>(1,936)</u>
	114	(4,046)
Movement in net debt		
Net debt at 1 January	(52,159)	(48,113)
Net debt at 31 December	<u>(52,045)</u>	<u>(52,159)</u>

15b

**AVENELL PROPERTY PLC**  
**NOTES TO THE ACCOUNTS**  
**31 December 2009**

*Registered company number 3817411*

**16. FINANCIAL COMMITMENTS**

Avenell Property plc has entered into an agreement with Avenell Leasing Limited to issue a series of zero coupon bonds issues at a discount over the period to 2023. The zero coupon bonds will be issued to fund Avenell Property plc's ongoing interest liabilities.

Avenell Leasing Limited has entered into a joint financial arrangement with Avenell Property plc, Highbury Finance B V and J Sainsbury plc.

**17. FINANCIAL INSTRUMENTS**

The company has raised finance through the issue of a secured bond. Borrowings are at fixed rates of interest. The company is committed to the issue of the series of zero coupon bonds to Avenell Leasing Limited.

The company operates a long-term business and its policy is to finance it with long-term financing.

The disclosure below excludes short-term debtors and creditors.

**Interest rate risk profile of financial liabilities**

	Fixed rate £'000	Weighted average interest rate %	Weighted average period for which rate is fixed yrs
<b>At 31 December 2009</b>			
Sterling at carrying value	56,684	7.65	14
<b>At 31 December 2008</b>			
Sterling at carrying value	52,268	7.62	15

**Interest rate risk profile of financial assets**

The financial assets comprise an interest as beneficiary to a trust. The company, through its interest as beneficiary to a trust, is entitled to a priority payment from the proceeds of the sale of the freeholds up to £170 million. In addition should the sale proceeds of the freeholds be higher than £170 million the company has the right to share in the excess according to a sliding scale. A downturn in property values may mean that the £170 million is not realised. However, the company has the benefit of a financial guarantee from J Sainsbury Plc to ensure the Company receives a minimum of £170 million following the sale of its interest in the properties.

The appreciation rate of the assets is fixed up to £170 million at 8.119% and over £170 million according to the sliding scale.

**Fair values of financial assets and financial liabilities**

Set out below is a comparison by category of book values and fair values of the company's financial assets and financial liabilities as at 31 December 2009.

	Book value at 31 December 2009 £'000	Fair value at 31 December 2009 £'000
Secured bond 2023	(28,075)	(30,801)
Zero coupon bond	(28,609)	(31,782)
Investments	59,686	61,476

The fair value of the secured bond 2023, zero coupon bond and investment have been determined by discounted cash flows at a rate equal to the prevailing market rate of interest for financial instruments having substantially the same term and characteristics.

**AVENELL PROPERTY PLC**  
**NOTES TO THE ACCOUNTS**  
**31 December 2009**

*Registered company number 3817411*

**17. FINANCIAL INSTRUMENTS (CONTINUED)**

**Maturity of the company's financial liabilities (nominal value)**

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
In less than one year		
Between one and two years	-	-
Between two and five years	-	-
In more than five years	87,886	81,098
	<u>87,886</u>	<u>81,098</u>
Unamortised issue costs	(778)	(836)
	<u>87,108</u>	<u>80,262</u>

The secured bond and zero coupon bonds are due to be repaid in full in March 2023. This redemption will be funded by the sale of the company's interest in the freeholds. Interest on the secured bond is paid at a rate of 7.0907913% per annum. No interest is paid on the zero coupon bonds until maturity which accrues interest at a fixed rate of 9.196%.

**18. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS**

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
At 1 January	1,357	1,210
Profit for the year	127	147
At 31 December	<u>1,484</u>	<u>1,357</u>

**19. ULTIMATE PARENT UNDERTAKING**

The company's immediate parent company is Avenell Holdings Limited, a company registered in England and Wales.

In the directors' opinion, the company's ultimate controlling party is Bivar Limited. PXS Limited (own ninety B Ordinary shares each of £1, the other 10 shares being held by The Law Debenture Intermediary Corporation plc along with 100 Preference shares). PXS Limited's parent undertaking is Bivar Limited. The shareholders are companies registered in England and Wales and accounts can be obtained from 400 Capability Green, Luton, Beds LU1 3LU (PXS Limited) and Fifth Floor, 100 Wood Street, London EC2V 7EX (The Law Debenture Intermediary Corporation plc).

**20. POST BALANCE SHEET EVENTS**

The Trustee has approved a substitution in respect of the Whitechapel property held within the property pool structure, which underpins the Company's investments. The need for substitution had arisen out of the proposed compulsory purchase of part of the Whitechapel property to enable the construction of the Crossrail scheme.

In addition a Rating Agency confirmation had been provided by Standard & Poor's that a substitution would not adversely impact the ratings within the securitisation structure.