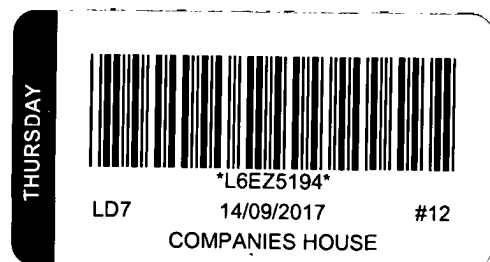


Company Registration No: 03465262

**REALGATE LIMITED**  
**REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**



**REALGATE LIMITED**

**DIRECTORS AND OFFICERS**

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**DIRECTORS**

W K Procter  
C C McGill

**SECRETARY**

P A Hallam

**REGISTERED OFFICE**

Molteno House  
302 Regents Park Road  
London  
N3 2JX

**AUDITOR**

RSM UK Audit LLP  
Chartered Accountants  
3<sup>rd</sup> Floor  
One London Square  
Cross Lanes  
Guildford  
Surrey  
GU1 1UN

## **REALGATE LIMITED**

### **DIRECTORS' REPORT**

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The directors submit their report and the audited financial statements for the year ended 31 December 2016.

#### **Principal Activities**

The principal activity of the company during the year was property investment.

#### **Business review and future developments**

The directors are satisfied with the financial position of the company at the year end subject to the matters discussed in the accounting policies on page 8 which may have an impact on the company's ability to continue as a going concern.

As discussed in the accounting policies on page 8, the company is party to a group cross collateralised funding structure along with a number of other companies under common control.

The group's bankers previously advised that an element of the interest rate swap linked to the group's financing structure has been terminated giving rise to an obligation for the group to pay break costs totalling £6.1m. This has been provided for in the relevant related party entities' financial statements. In addition, a further interest rate swap remained in effect at the year end to which the group has a potential exposure. The directors estimate that the value of these remaining swaps break liabilities amount to £29.8m (2015: £32.1m), based on a valuation carried out at 5 July 2017 (2015: 14 July 2016) which, given the proximity of the valuation date to the accounts approval date, is considered by the directors to be a prudent estimate of the value of the contingent liability (see note 1.9). The group became aware that the swap was broken in August 2017 (see note 12).

#### **Investment properties**

The investment properties have been valued by the directors at £11,200,000 (2015: £8,501,000). The resultant fair value gain in the year amounted to £2,699,000 (2015: £659,000 loss). Details of the investment properties are set out in note 7.

#### **Results and dividends**

The profit for the year amounted to £2,711,047 (2015: £150,557 loss). The directors do not recommend the payment of a dividend.

#### **Directors**

The following directors have held office during the year and up until the point of signing the financial statements:

W K Procter  
C C McGill

## REALGATE LIMITED

### DIRECTORS' REPORT (Continued)

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#### 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). 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 those financial statements, the directors are required to:

- a. select suitable accounting policies and then apply them consistently;
- b. make judgements and accounting estimates that are reasonable and prudent;
- c. 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.

#### Statement as to disclosure of information to auditor

The directors who were in office on the date of approval of these financial statements have confirmed that, as far as they are aware, there is no relevant audit information of which the auditor is unaware. The directors have confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

#### Auditor

The auditor, RSM UK Audit LLP, Chartered Accountants, has indicated its willingness to continue in office.

This report has been prepared in accordance with the provisions applicable to companies entitled to the small companies exemption. The directors have also taken the available exemption from the requirement to prepare a strategic report.

By order of the Board:



W K Procter  
Director

7 September 2017

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF REALGATE LIMITED

### Opinion on financial statements

We have audited the financial statements on pages 5 to 19. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 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.

### Emphasis of matter – Going concern

In forming our opinion on the financial statements which is not modified, we have considered the adequacy of the disclosures made in the accounting policies on page 8 to the financial statements which set out some possible events which could result from the company's United Kingdom group's cross collateralised borrowings from its principal lender not being refinanced which may have an impact on the company's ability to continue as a going concern. These events indicate the existence of a material uncertainty which may cast doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

### Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at <http://www.frc.org.uk/auditscopeukprivate>.

### 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 and, based on the work undertaken in the course of our audit, the Directors' Report have been prepared in accordance with applicable legal requirements.

### Matters on which we are required to report by exception

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.


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; or
- the directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report or in preparing the directors' report.

### Respective responsibilities of directors and auditor

As more fully explained in the Directors' Responsibilities Statement set out on page 3, 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 and express an opinion on 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.

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.



Colin Roberts FCA (Senior Statutory Auditor)  
For and on behalf of RSM UK Audit LLP, Statutory Auditor  
Chartered Accountants  
Third Floor  
One London Square  
Cross Lanes  
Guildford  
Surrey  
GU1 1UN

8 September 2017

**REALGATE LIMITED**

**STATEMENT OF COMPREHENSIVE INCOME**

**FOR THE YEAR ENDED 31 DECEMBER 2016**

	<b>Notes</b>	<b>2016 £</b>	<b>2015 £</b>
<b>Turnover</b>	2	565,488	357,374
Administrative expenses		(188,099)	(142,454)
<b>Operating profit</b>		<u>377,389</u>	<u>214,920</u>
Fair value gain/ (loss) on investment property		2,699,000	(659,000)
Interest receivable and similar income	3	14,404	10,777
<b>Profit/ (loss) on ordinary activities before taxation</b>	4	<u>3,090,793</u>	<u>(433,303)</u>
Taxation	6	(379,746)	282,746
<b>Profit/ (loss) on ordinary activities after taxation</b>		<u>2,711,047</u>	<u>(150,557)</u>
Other comprehensive income		-	-
<b>Total comprehensive income for the year</b>		<u><u>2,711,047</u></u>	<u><u>(150,557)</u></u>

**REALGATE LIMITED**

**STATEMENT OF FINANCIAL POSITION (Company Registration Number: 03465262)**

**AT 31 DECEMBER 2016**

	Notes	2016 £	2015 £
<b>Fixed assets</b>			
Investment properties	7	11,200,000	8,501,000
<b>Current assets</b>			
Debtors: due within one year	8	1,251,026	859,033
<b>Creditors: amounts falling due within one year</b>	9	(33,306)	(33,106)
<b>Net current assets</b>		1,217,720	825,927
<b>Total assets less current liabilities</b>		12,417,720	9,326,927
<b>Provisions for liabilities</b>	10	(1,715,000)	(1,335,254)
<b>Net assets</b>		10,702,720	7,991,673
<b>Capital and reserves</b>			
Called up share capital	11	2	2
Profit and loss account		10,702,718	7,991,671
<b>Total equity</b>		10,702,720	7,991,673

The financial statements on pages 5 to 19 were approved by the board of directors and authorised for issue on 7 SEPTEMBER 2017 and are signed on its behalf by:



**W K Procter**  
Director

**REALGATE LIMITED**

**STATEMENT OF CHANGES IN EQUITY**

**FOR THE YEAR ENDED 31 DECEMBER 2016**

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	<b>Share capital £</b>	<b>Profit and loss account £</b>	<b>Total £</b>
<b>Balance at 1 January 2015</b>	2	8,142,228	8,142,230
Loss and total comprehensive income for the year	-	(150,557)	(150,557)
<b>Balance at 31 December 2015</b>	<u>2</u>	<u>7,991,671</u>	<u>7,991,673</u>
Profit and total comprehensive income for the year	-	2,711,047	2,711,047
<b>Balance at 31 December 2016</b>	<u>2</u>	<u>10,702,718</u>	<u>10,702,720</u>



# REALGATE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

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#### 1. Accounting policies

##### Company information

Realgate limited ("the Company") is a limited company domiciled and incorporated in England. The address of the Company's registered office and principal place of business is Molteno House, 302 Regents Park Road, London, N3 2JX. The principal activity of the company during the year was that of property investment.

#### 1.1 Basis of accounting

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006, including the provisions of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, and under the historical cost convention, modified to include the revaluation of investment properties at fair value.

The financial statements of the Company are consolidated in the financial statements of Fairhold Holdings Limited. The consolidated financial statements of Fairhold Holdings Limited are available from Companies House, Crown Way, Cardiff, CF14 3UZ.

#### 1.2 Reduced disclosures

In accordance with FRS 102, the Company has taken advantage of the exemptions from the following disclosure requirements;

- Section 4 'Statement of Financial Position' – Reconciliation of the opening and closing number of shares
- Section 7 'Statement of Cash Flows' – Presentation of a Statement of Cash Flow and related notes and disclosures
- Section 11 'Basic Financial Instruments' & Section 12 'Other Financial Instrument Issues' – Carrying amounts, interest income/expense and net gains/losses for each category of financial instrument; basis of determining fair values; details of collateral, loan defaults or breaches, details of hedges, hedging fair value changes recognised in profit or loss and in other comprehensive income.
- Section 33 'Related Party Disclosures' – Compensation for key management personnel.

#### 1.3 Going concern

The company is party to a group cross collateralised funding structure along with a number of other companies under common control. The directors have assessed the operation of the structure and have determined that the company has, or can expect to have, subject to the matters set out below, sufficient working capital for its needs for at least 12 months from the date of approval of these financial statements. In view of this the directors consider it appropriate for the financial statements to be prepared on a going concern basis.

The company is party to cross collateralised loan facilities of £105,547,985 (2015: £105,547,985) with accrued interest outstanding of £44,905,865 (2015 as restated: £37,030,961). The cross collateralised loan balance is itself comprised of a senior loan amount of £85,547,985 (2015: £85,547,985), which was due for repayment in January 2013 and a subordinated loan of £20,000,000 (2015: £20,000,000) which was due for repayment in December 2015.

Accrued interest on the senior loan is £5,490,426 (2015: £4,531,923) and accrued interest on the subordinated loan is £39,415,439 (2015 as restated: £32,499,038). Following the acquisition of the debt in the prior year the subordinated loan, including the accrued interest thereon, is owed to a related party.

## REALGATE LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

#### FOR THE YEAR ENDED 31 DECEMBER 2016

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##### 1.3 Going concern (continued)

The senior lender syndicated the senior loan to two parties in May 2006. The notes of the precedent loan note holder, which equate to 77% (A Tranche) of the total senior loan balance themselves rank senior to the 23% (B Tranche) minority loan note holder for debt repayment. The repayment of the senior loan was not made in January 2013 and in the absence of an extension, the senior loan fell into repayment default and a Special Servicer was appointed. The Special Servicer's role is to manage the senior loan on behalf of the senior secured creditors and take the actions it deems necessary to optimise recovery of the unpaid loan balance for those creditors. In addition, the senior loan has applied a fixed rate of interest, along with additional default interest of Libor+2%, and the group is potentially liable for the break costs of the interest rate swap that is linked to the financing structure. In the event of a break an adverse mark to market value could be added to the group's liabilities and would become immediately repayable on demand.

The company's bankers previously advised that the element of the interest rate swap relating to the minority loan notes had been terminated, giving rise to an obligation for break costs totalling £6.1m. This has been recognised as a liability in the relevant related party entities' financial statements.

The value of the swap break remaining in effect as at 31 December 2016 was estimated by the directors to be a contingent liability of approximately £29.8m (2015: £32.1m), based on a valuation conducted as at 5 July 2017 (2015: 14 July 2016). The directors understand the swaps were broken in August 2017, subsequent to the year end (see note 1.9).

The group's advisors have established a positive working relationship with the Special Servicer who has indicated that the ultimate controlling party is best placed to manage initiatives to raise capital to enable repayment of the loans and any liability for interest rate swap break costs. The directors consider that the Special Servicer will continue to be supportive of the group's efforts to generate sufficient funds to meet the repayment terms.

Accordingly, the directors' opinion is that it is appropriate to prepare the financial statements on the going concern basis. The financial statements have therefore been prepared on the going concern basis which assumes that the group's loan facilities will not be withdrawn and that the Special Servicer continues to be supportive.

In the event that such support was to be withdrawn the principal direct and indirect effects of a demand for immediate repayment of the group's borrowings are that:

- i. the cross collateralised borrowings, as set out in note 12, totalling £85,547,985 (2015: £85,547,985) at the year end, become immediately repayable and further costs could arise in respect of the interest rate arrangements that fixed the interest rates on those loans, the level of which would depend on the market rates of interest prevailing at the time of such a termination. The estimated break liability (see note 1.9) is £29.8m (2015: £32.1m), based on a valuation at 5 July 2017 (2015: 14 July 2016). The directors understand these swaps were broken in August 2017. In addition, a further interest rate swap break liability of £6.1m has now crystallised. This has been provided for in the relevant related party financial statements; and

# REALGATE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

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#### 1.3 Going concern (continued)

- ii. if not repaid when due, the senior lender to the company's United Kingdom holding company could exercise its share pledges over that holding company and its group companies and take control or could exercise its security direct over the company's investment properties. The senior lender may seek to sell the holding company, individual companies or dispose of assets separately or together and at a time of its own choosing. This process may not represent an orderly realisation in the normal course of business so the company's investment properties would, probably, only be realised at values significantly less than their carrying values in these financial statements which are based on actuarial valuations. As noted in note 7 these valuations can be volatile; and
- iii. if a realisation of the company's properties is carried out then a tax liability would arise on any sale of the properties at values in excess of cost. Provision is made in the financial statements for this tax liability. A disposal based on the carrying value of the properties as at the year end would have resulted in a tax liability crystallising, estimated at £1,715,000 (2015: £1,335,254), as referred to in note 10.

#### 1.4 Functional and presentational currencies

The financial statements are presented in sterling which is also the functional currency of the company.

#### 1.5 Turnover

Turnover comprises rent receivable and other income arising from investment properties.

Rental income is recognised in accordance with the terms of the lease.

Turnover is recognised at the fair value of the consideration received or receivable for rental income charged to external customers in the ordinary nature of the business. Turnover is shown net of value added tax.

#### 1.6 Investment properties

The company's holdings of Freehold Reversionary Interests are classified as Investment Property and are initially measured at cost and subsequently measured at fair value whilst a reliable measure of fair value is available without undue cost or effort. Changes in fair value are recognised in profit or loss.

These assets, as their name implies, represent interests held in the freehold land on which third party developers have built and sold long leasehold properties. As such these assets are more akin to financial investments, as they generate income in the form of annual ground rents along with other ancillary income streams.

Recognising the unusual nature of these investment properties and the lack of a regular market for such significant portfolios of such assets, which are in distinct contrast with the more regular "bricks and mortar" investment properties, the directors are of the opinion that the best approximation to fair value for these properties is provided by a discounted cashflow valuation of the income streams generated by these assets. The valuation of the entire Freehold Reversionary Interest portfolio is undertaken by the directors based on periodic actuarial valuations carried out by a leading firm of third party actuarial consultants.

The Companies Act 2006 requires all properties to be depreciated. However, this requirement conflicts with the generally accepted accounting principle set out in FRS 102. The directors consider that, because investment properties are not held for consumption, but for their investment potential, to depreciate them would not give a true and fair view.

## **REALGATE LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

#### **FOR THE YEAR ENDED 31 DECEMBER 2016**

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##### **1.6 Investment properties (continued)**

If this departure from the Companies Act 2006 had not been made in order to give a true and fair view, the profit for the financial year would have been reduced by depreciation. However the amount of depreciation cannot reasonably be quantified, because depreciation is only one of many factors reflected in the annual valuation and the amount relating to the depreciation of the property cannot be separately identified.

The directors also recognise, given the unusual nature and lack of a regular market for such significant portfolios of assets, that these carrying values may not be realised should the company seek to dispose of any or all of the investment properties in a short period of time.

Further details are given in note 7.

##### **1.7 Taxation**

The tax expense represents the sum of the current tax expense and deferred tax expense. Current tax assets are recognised when tax paid exceeds the tax payable.

Current tax is based on taxable profit for the year. Taxable profit differs from total comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods. Current tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax liabilities are recognised in respect of all timing differences that exist at the reporting date. Timing differences are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in different periods from their recognition in the financial statements. Deferred tax assets are recognised only to the extent that it is probable that they will be recovered by the reversal of deferred tax liabilities or other future taxable profits.

For non-depreciable assets measured using the revaluation model and investment properties measured at fair value (except investment property with a limited useful life held by the Company to consume substantially all of its economic benefits), deferred tax is measured using the tax rates and allowances that apply to the sale of the asset or property.

Current and deferred tax is charged or credited in profit or loss, except when it relates to items charged or credited to other comprehensive income or equity, when the tax follows the transaction or event it relates to and is also charged or credited to other comprehensive income, or equity.

Current tax assets and current tax liabilities and deferred tax assets and deferred tax liabilities are offset, if and only if, there is a legally enforceable right to set off the amounts and the entity intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

## REALGATE LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

#### FOR THE YEAR ENDED 31 DECEMBER 2016

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##### 1.8 Financial instruments

The Company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102, in full, to all of its financial instruments.

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument, and are offset only when the Company currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

##### ***Financial assets***

###### *Trade debtors*

Trade debtors which are receivable within one year and which do not constitute a financing transaction are initially measured at the transaction price. Trade debtors are subsequently measured at amortised cost, being the transaction price less any amounts settled and any impairment losses.

##### ***Financial liabilities and equity***

###### *Creditors*

Creditors payable within one year that do not constitute a financing transaction are initially measured at the transaction price and subsequently measured at amortised cost, being the transaction price less any amounts settled.

###### *Borrowings*

Borrowings are initially recognised at the transaction price, including transaction costs, and subsequently measured at amortised cost using the effective interest method. Interest expense is recognised on the basis of the effective interest method and is included in interest payable and other similar charges.

##### ***Derecognition of financial assets and liabilities***

A financial asset is derecognised only when the contractual rights to cash flows expire or are settled, or substantially all the risks and rewards of ownership are transferred to another party, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party. A financial liability (or part thereof) is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

##### 1.9 Critical accounting estimates and areas of judgement

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

##### ***Critical accounting estimates and assumptions***

The company makes estimates and assumptions concerning the future. The resulting accounting estimates and assumptions will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

# REALGATE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

### 1.9 Critical accounting estimates and areas of judgement (continued)

#### *Valuation of investment properties*

A key accounting estimate in preparing these financial statements relates to the carrying value of the investment property which is stated at fair value. The company uses external professional actuarial valuations as a basis for determining the directors' estimation of the fair value of the investment properties. However, the valuation of the company's investment property is inherently subjective, as it is made on the basis of valuation assumptions which may in future not prove to be accurate.

In the current year the directors refined the discount rate used in valuing future cash flows. Details of the principal assumptions applied in the valuation of the investment properties are set out in note 7.

#### *Deferred taxation*

Deferred tax liabilities are assessed on the basis of assumptions regarding the future, the likelihood that assets will be realised and liabilities will be settled, and estimates as to the timing of those future events and as to the future tax rates that will be applicable.

#### *Swap break costs*

A number of interest rate swaps have been entered into by the senior lender that remain in effect at the year end. The group of which the company is part of has a potential exposure to these swaps. The directors understand that these swaps were terminated in August 2017. The directors do not believe that the group has any liability in respect of these until demand is made of the group pursuant to the terms of the loan agreement.

There is also uncertainty over the timing of when any swap break costs should have been calculated. The directors believe the loan agreements require the swap break calculation to be made using market data as at the time of the repayment default, i.e. January 2013. The value in this event would most likely be substantially lower than the value of a swap break in August 2017. The lender did not provide the group with the value of the swap break as at January 2013.

Due to the uncertainty surrounding the valuation of the swap break costs and the ability of the lender to pass these liabilities on to the group in these circumstances, the costs have been disclosed as a contingent liability. The value of these contingent swap break liabilities has been based on a valuation carried out at 5 July 2017 which, given the proximity of the valuation date to the swap termination date, is considered by the directors to be a prudent estimate of the value of the contingent liability.

## 2. Turnover

An analysis of the Company's turnover by class of business is as follows:

	2016 £	2015 £
Rent receivable	50,578	50,715
Other income	514,910	306,659
	<u>565,488</u>	<u>357,374</u>

**REALGATE LIMITED****NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2016**

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**2. Turnover (continued)**

The company's turnover for the year has been derived from its principal activity wholly undertaken in the United Kingdom.

<b>3. Interest receivable and similar income</b>	<b>2016 £</b>	<b>2015 £</b>
Interest on parent company loan	14,404	10,777

<b>4. Profit/ (Loss) on ordinary activities before taxation</b>	<b>2016 £</b>	<b>2015 £</b>
The profit/ (loss) on ordinary activities before taxation is stated after charging:		
- Auditor's remuneration	5,500	5,424

**5. Employees and directors**

There were no employees during the year other than the directors. The directors are remunerated by the related party Fairhold Services Limited and this is recharged to the company as part of the management charge from Estates & Management Limited. This management charge, which in 2016 amounted to £171,170 (2015: £129,160) also includes a recharge of administration costs borne by Fairhold Services Limited on behalf of the company and it is not possible to identify separately the amount relating to the directors remuneration.

<b>6. Taxation</b>	<b>2016 £</b>	<b>2015 £</b>
<b>Current tax</b>		
UK corporation tax	-	-
<b>Total current tax</b>	-	-
<b>Deferred tax:</b>		
Movement on potential chargeable gain liability	379,746	(282,746)
<b>Total deferred tax</b>	379,746	(282,746)
<b>Total tax on profit/ (loss) on ordinary activities</b>	379,746	(282,746)

**REALGATE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2016**

**6. Taxation (continued)**

Factors affecting the tax charge for the year.

The tax assessed for the year is lower than the standard rate of corporation tax in the UK 20% (2015: 20%). The differences are explained below:

	<b>2016</b> £	2015 £
Profit/ (Loss) on ordinary activities before tax	3,090,793	(433,303)
Profit/ (Loss) on ordinary activities multiplied by the standard rate of Corporation tax in the UK of 20% (2015: 20%).	618,159	(86,661)
Effects of:		
Chargeable gain adjustments	(160,054)	(150,946)
Group relief received without charge	(78,359)	(45,139)
Tax charge/(credit)	<u>379,746</u>	<u>(282,746)</u>

In the prior period Finance Act 2015 was enacted and included legislation to reduce the main rate of corporation tax to 19% with effect from 1 April 2017, and by a further 1%, reaching 18%, with effect from 1 April 2020. In the current period, Finance Act 2016 was enacted and included legislation to reduce the main rate by a further 1%, reaching 17% with effect from 1 April 2020. As this change was substantively enacted at the balance sheet date and no material amount is expected to unwind prior to 1 April 2020, deferred tax is recognised at 17% in the current period (2015: 18%).

**7. Investment properties**

	<b>2016</b> £	2015 £
<b>Fair Value</b>		
As at 1 January	8,501,000	9,160,000
Fair value gain/ (loss)	2,699,000	(659,000)
<b>As at 31 December</b>	<u>11,200,000</u>	<u>8,501,000</u>

The investment properties represent a portfolio of ground rents. The investment properties were valued at £7,600,000 on an actuarial basis by a leading firm of financial and actuarial consultants as at 31 May 2013. The directors have reviewed the actuarial valuation as at 31 May 2013 and based on market changes in the intervening period have determined their own valuations at 31 December 2016 and 31 December 2015.

The directors, in carrying out their valuations at 31 December 2016 and 31 December 2015, have reviewed the basis of the 31 May 2013 actuarial valuation and concluded that there have been changes in the key valuation drivers since the actuarial valuation. Accordingly the directors have assessed these changes to the valuation drivers and based on the sensitivities noted consider the updated valuation of the investment properties of £11,200,000 at 31 December 2016 (2015: £8,501,000) is appropriate for adoption for the purposes of these financial statements.



## REALGATE LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

#### FOR THE YEAR ENDED 31 DECEMBER 2016

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#### 7. Investment properties (continued)

The basis of the independent valuation performed on an actuarial basis was to project risk adjusted income streams generated by the portfolio, over 150 years discounted by a risk free rate of return.

The principal assumptions used in the independent actuarial valuation were:

RPI basis for inflation assumptions	- Implied inflation vector taken from the Bank of England website;
Residential property inflation	- derived from market rental yields as found in the ARLA report and the UK Government gilt curve;
Risk free discount rate	- a series of rates reflecting the UK government gilt curve as applicable to each cash flow date;
Taxation	- no allowance has been made for taxation in projecting the future revenue flow;
Incidence rates for lease extensions and the price charged	- historic rates and FTT valuation.

The assumption with the most significant impact on the valuation is the discount rate used. The discount rates used have been refined in the year in line with detail contained in the independent actuaries report. A 100 basis point increase or decrease in this rate reduces or increases the valuation by 26% and 49% respectively and it is predominately the movement in this rate that has caused the marked change in value during the current or prior year.

If investment properties were stated on an historical basis rather than a fair value basis, the amounts would have been included as follows:

	Freehold reversionary interests	
	2016 £	2015 £
Cost	692,307	692,307

The company's investment property is subject to a debenture and charge in connection with a guarantee provided to the company in respect of the indebtedness of the holding company and other related parties (see note 12).

**REALGATE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2016**

**8. Debtors**

	<b>2016</b>	2015
	<b>£</b>	<b>£</b>
Trade debtors	4,397	5,155
Prepayments and accrued income	108	98
Amounts owed by parent company	1,246,521	853,780
	<u>1,251,026</u>	<u>859,033</u>

There are no fixed terms of repayment of the parent company loan. Interest is charged at Libor +1%. Despite the loan being repayable on demand it is not the intention for the loans to be repaid within one year.

**9. Creditors: amounts falling due within one year**

	<b>2016</b>	2015
	<b>£</b>	<b>£</b>
Accruals and deferred income	33,306	33,106
	<u>33,306</u>	<u>33,106</u>

**10. Provision for liabilities**

	<b>Deferred taxation £</b>
1 January 2016	1,335,254
Increase in provision in the year	379,746
31 December 2016	<u>1,715,000</u>

Provision for deferred tax liabilities recognised by the company is as follows:

	<b>2016</b>	2015
	<b>£</b>	<b>£</b>
Deferred tax arising on assets measured at fair value	1,715,000	1,335,254
	<u>1,715,000</u>	<u>1,335,254</u>

**11. Share capital and reserves**

**Share capital**

	<b>2016</b>	2015
	<b>£</b>	<b>£</b>
Allotted, issued and fully paid: 2 ordinary shares of £1	2	2
	<u>2</u>	<u>2</u>

*Ordinary share rights*

The company's ordinary shares, which carry no right to fixed income, each carry the right to one vote at general meetings of the company.

## REALGATE LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

#### FOR THE YEAR ENDED 31 DECEMBER 2016

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#### 11. Share capital and reserves (continued)

##### Reserves

Reserves of the Company represent the following:

##### *Retained earnings*

Cumulative profit and loss net of distributions to owners.

#### 12. Guarantees and contingent liabilities

The company has given an unlimited guarantee in respect of some of the indebtedness of its holding company Fairhold Holdings Limited and of the related parties Fairhold Holdings (2001) Limited, Linecroft Limited and Fairhold Holdings (2003) Limited. These parties are related as they are subject to common control and common directorship. The guarantee is supported by a debenture and a charge over the company's investment properties.

At 31 December 2016, the total loan principal outstanding on these loan facilities was £105,547,985 (2015: £105,547,985). Interest payable on this balance outstanding at 31 December 2016 totalled £44,905,865 (2015 as restated: £37,030,961).

The total loan amounts are split between a senior loan element (which itself has been syndicated and divided into a 77% A Tranche and a 23% minority B Tranche) and a subordinated loan element, this is discussed in the going concern accounting policy on page 8. The subordinated loan and accrued interest, totalling approximately £59.4m, is owed to a related party.

In addition to the indebtedness referred to above, the group of which Realgate Limited is a member could also be liable for the break costs of the interest rate swap that is part of the financing structure but to which it is not a party. In the event of a break an adverse mark to market value could be added to the group's liabilities and would become immediately repayable if demanded. The contingent swap break cost was estimated by the directors at approximately £29.8m (2015: £32.1m), based on a valuation conducted at 5 July 2017 (2015: 14 July 2016). The directors understand these swaps were broken in August 2017 (see note 1.9).

In addition to the contingent swap liabilities referred to above, a further interest rate swap break liability of £6.1m in respect of the B Tranche minority loan has now crystallised. This has been provided for in the relevant related party entities' financial statements and is subject to the same cross guarantees as referred to above. Accrued interest on this liability totals £540,268 (2015: £315,195).

The company is included in a group registration for VAT purposes and are therefore jointly and severally liable for all other participating group undertakings' unpaid debts in this connection.

#### 13. Ultimate parent company and ultimate controlling party

The immediate parent company is Tilebourne Limited, which is registered in England and Wales. The company's United Kingdom and closest holding company for which group accounts are drawn up is Fairhold Holdings Limited, which is registered in England and Wales. This undertaking is the holding company of both the largest and smallest group for which group accounts are prepared and of which the company is a member. Copies of the financial statements are available from Companies House, Crown Way, Cardiff, CF14 3UZ.

The directors regard the ultimate holding company to be Euro Investments Overseas Incorporated, a company incorporated in the British Virgin Islands.

The ultimate controlling party is the Tchenguiz Family Trust.

**REALGATE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2016**

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**14. Related party transactions**

The company has taken advantage of the exemptions provided by Section 33 of FRS 102 'Related Party Disclosures' and has not disclosed transactions entered into between two or more members of a group, provided that any subsidiary undertaking which is party to the transaction is wholly owned by a member of that group.

Management fees of £171,170 (2015: £129,160) were charged to the company in the year by a company related by virtue of common control and common directors.

Of the unlimited guarantee in respect of some of the indebtedness of the related parties set out in note 12, contingent amounts of £59,415,439 (2015: £52,499,038) are owed to a related party.