Registered No: 03697448

FAIRHOLD HOMES (NO.11) LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 OCTOBER 2019

FAIRHOLD HOMES (NO.11) LIMITED

DIRECTORS AND OFFICERS

DIRECTORS

W K Procter
C C McGill

SECRETARY

P A Hallam

REGISTERED OFFICE

Berkeley House
304 Regents Park Road
London
N3 2JX

AUDITOR

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

The directors submit their report and the financial statements for the year ended 31 October 2019.

Principal activity

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

Business review and future developments

There were no changes in the company's investment property portfolio in the year. As detailed in the going concern accounting policy on page 10, the parent company, Fairhold Finance Limited, ('FFL') and the company signed a Shareholder Lock-Up Agreement with the creditors of the securitised financing structure on 14 December 2019. The effect of this agreement is to commit FFL and its subsidiary companies to a planned debt restructure of loan notes, swaps and a funding loan and the subsequent sale of the company, along with all the other subsidiaries of FFL, on a going concern basis. This restructure and sale is expected to complete in early 2020. Consequently, the directors consider the financial position of the company at the year-end to be satisfactory.

Results and dividends

The loss for the year amounted to £16.0m (2018: £43k profit). The movement in results year on year arise principally as a result of the recognition of additional costs in the period relating to swap break costs and changes in the valuation of the property portfolio. The directors are precluded from recommending the payment of a dividend.

Investment properties

The investment properties have been valued by the directors at £13.1m having regard to the amounts of new debt to be issued under the terms of the Shareholder Lock-Up Agreement. Previously the properties were valued on an actuarial basis (2018: £25.0m). The decrease in value in the year amounted to £11.9m (2018: £0.3m increase). Details of the investment properties are set out in note 7 and the accounting policies relating to investment properties on pages 13 and 15.

Directors

The directors who served during the year were as follows:

W K Procter
C C McGill

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 the 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.

Insurance of Company Officers

The company has maintained insurance throughout the year for its directors and officers against the consequences of actions which may be brought against them in relation to their duties for the company.

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

25|02|2020

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FAIRHOLD HOMES (NO.11) LIMITED

Disclaimer of opinion
We were engaged to audit the financial statements of Fairhold Homes (No.11) Limited (the 'company') for the year ended 31 October 2019 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

We do not express an opinion on the accompanying financial statements of the company. Because of the significance of the matters described in the basis for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements.

Basis for disclaimer of opinion
In seeking to form an opinion on the financial statements we considered the implications of the significant uncertainties disclosed in the financial statements concerning the following matters:

- *Secured loans, swap instruments and going concern:* We draw attention to the disclosures made in the going concern accounting policy beginning on page 10 of the financial statements which states that subsequent to the year end on 14 December 2019 the shareholders of the Fairhold Finance Limited group, of which this company is a member, signed a Shareholder Lock-Up Agreement with the group's principal loan and swap counterparty creditors of the securitised financing structure. The effect of this agreement is to commit Fairhold Finance Limited and its subsidiary companies to a planned debt restructure and subsequent sale of the company, along with all of the other subsidiaries of Fairhold Finance Limited, on a going concern basis. The refinancing transactions envisaged by the agreement are expected to complete in early 2020 but have not completed at the date of this report. Therefore, whilst the signing of the Shareholder Lock-Up agreement is expected to result in the successful refinance of the company, it is not yet certain. If the refinancing transactions envisaged in the Shareholder Lock-Up Agreement do not complete this may have an impact on the company's ability to continue as a going concern. These events, along with the other factors discussed in the going concern accounting policy beginning on page 10, indicate the existence of a material uncertainty which may cast significant 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.

- *Investment properties:* we draw attention to the disclosures made in the accounting policies on pages 13 and 15 and in note 7 to the financial statements concerning the fair values of the company's investment properties. The investment properties totalling £13.1m (2018: £25.0m) included in the financial statements at 31 October 2019 were valued by the directors, having regard to the amounts of new debt to be issued under the terms of the Shareholder Lock-Up Agreement referred to above. In the prior year the properties were valued on an actuarial basis having regard to a valuation performed by the independent actuaries on 28 February 2015, and market changes in the intervening period. As disclosed in the accounting policies on page 13 the directors recognise, given the unusual nature and lack of a regular market for such portfolios of assets, that these carrying values may not be realised should the company seek to dispose of the investment properties and therefore should the going concern assumption prove to be inappropriate impairment may be required. As the transaction has not yet completed, the ultimate outcome of the matter cannot presently be determined, and the financial statements do not include any adjustments that would result if a further revaluation of the investment properties was required.

There is potential for the above uncertainties to interact with one another such that it has been impossible to obtain sufficient appropriate audit evidence regarding the possible effect of the uncertainties taken together.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FAIRHOLD HOMES (NO.11) LIMITED (continued)

Other information
The other information comprises the directors' report. The directors are responsible for the other information.

Our responsibility is to read the other information and express an opinion on whether the other information is consistent with the audited financial statements and has been prepared in accordance with applicable legal requirements and to state whether, in the light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, we have identified any material misstatements in the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to give an indication of the nature of the material misstatement.

Disclaimer of opinion on other matters prescribed by the Companies Act 2006
Because of the significance of the matter described in the basis of opinion section of our report, we have been unable to form an opinion on whether, based on the work undertaken in the course of the audit the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Except for the matters referred to above, in our opinion the directors' report has been prepared in accordance with the applicable legal requirements.

Matters on which we are required to report by exception
Arising from the limitation of our work referred to above:

- we have been unable to determine whether there are any material misstatements in the directors' report in the light of the knowledge and understanding of the company and its environment obtained in the course of the audit;

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 company's exemption from the requirement to prepare a strategic report or in preparing the directors report.

Responsibilities of directors
As explained more fully 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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements
Our responsibility is to conduct an audit of the company's financial statements in accordance with International Standards on Auditing (UK) and to issue an auditor's report. However, because of the matters described in the basis for disclaimer of opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FAIRHOLD HOMES (NO.11) LIMITED (continued)

Use of our report

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

Colin Roberts FCA (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
3rd Floor
One London Square
Cross Lanes
Guildford
Surrey
GU1 1UN

25 FEBRUARY 2020

FAIRHOLD HOMES (NO.11) LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 OCTOBER 2019

	Notes	2019 £	2018 £
Rent receivable	1	230,393	230,373
Administrative expenses		(60,248)	(165,648)
Other operating income		96,689	85,381
Operating profit		266,834	150,106
Fair value (loss)/gain on investment property	7	(11,879,000)	300,000
Interest receivable and similar income	2	379	174
Interest payable and similar expenses	3	(6,020,831)	(365,090)
(Loss)/profit before taxation	4	(17,632,617)	85,190
Taxation	6	1,639,000	(42,000)
(Loss)/profit after taxation		(15,993,617)	43,190
Other comprehensive income		-	-
Total comprehensive income for the year		(15,993,617)	43,190

FAIRHOLD HOMES (NO.11) LIMITED

STATEMENT OF FINANCIAL POSITION (Company Registration Number: 03697448)

AT 31 OCTOBER 2019

	Notes	2019 £	2018 £
Fixed assets			
Investment properties	7	13,121,000	25,000,000
Current assets			
Debtors due within one year	8	3,059,605	3,057,444
Cash at bank and in hand		103,713	111,771
		3,163,318	3,169,215
Creditors: amounts falling due within one year	9	(23,880,264)	(18,132,544)
Net current liabilities		(20,716,946)	(14,963,329)
Total assets less current liabilities		(7,595,946)	10,036,671
Provisions for liabilities	10	-	(1,639,000)
Net (liabilities)/assets		(7,595,946)	8,397,671
Capital and reserves			
Called up share capital	11	2	2
Profit and loss account		(7,595,948)	8,397,669
Total equity		(7,595,946)	8,397,671

The financial statements on pages 7 to 22 were approved by the board of directors and authorised for issue on 25/02/ 2020 and are signed on its behalf by:

W K Procter
Director

FAIRHOLD HOMES (NO.11) LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 OCTOBER 2019

	Share capital £	Profit and loss account £	Total £
Balance at 1 November 2017	2	8,354,479	8,354,481
Profit for the year	-	43,190	43,190
Balance at 31 October 2018	2	8,397,669	8,397,671
Loss for the year	-	(15,993,617)	(15,993,617)
Balance at 31 October 2019	2	(7,595,948)	(7,595,946)

Company information

Fairhold Homes (No.11) Limited ("the company") is a private company limited by shares, domiciled and incorporated in England. The address of the company's registered office and principal place of business is Berkeley House, 304 Regents Park Road, London, N3 2JX. The principal activity of the company during the year was that of property investment.

Basis of accounting

These financial statements have been prepared under the historical cost convention modified to include investment properties at fair value and 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.

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.

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

Going concern

In preparing the accounts on the going concern basis the directors have given consideration to the company's results for the year and its net liabilities position before unrealised revaluation gains are accounted for. The company's borrowings from its parent Fairhold Finance Limited ("FFL") are part of a securitised facility, of which the principal lender to FFL is Fairhold Securitisation Limited ("FSL"). FSL is the issuer of the securitised facility. Within this securitised financing structure interest and rental income were fixed by way of interest and RPI swaps. As noted below these swaps were broken in October 2015 and, as a result, the company's liabilities to FFL are now charged at a floating rate.

FFL and the company signed a Shareholder Lock-Up Agreement with the creditors of the securitised financing structure on 14 December 2019. The effect of this agreement is to commit FFL and its subsidiary companies to a planned debt restructure and subsequent sale of the company, along with all the other subsidiaries of FFL, on a going concern basis. This restructure and sale is expected to complete in early 2020.

Going concern (continued)

Loans from Fairhold Securitisation Limited ("FSL")

The major creditor to the Fairhold Finance Limited Group ("FFL") is FSL, the issuer of A & B Notes listed on the Irish Stock Exchange. Back to back loans have been made from FSL to FFL and in turn FFL has made back to back loans with the property owners, including the company. These loans total £443.5m and the maturity date of the loan from FFL to the company was 9 October 2015. The loan made to the company by FFL is therefore now repayable on demand. However, such a demand is only expected in the event that demand is made of FSL by its creditors. The maturity date of the A & B Notes issued by FSL was in October 2017.

Swap instruments

In addition to the loan amounts there were back to back swap instruments in place hedging interest rate and inflation risk. The main swaps were broken between FSL and the two bank counterparties on or about 10 October 2015. FSL, in turn, terminated the swaps it held with FFL, which in turn terminated its swap contracts with the property-owning companies, including the company, in the securitisation structure creating liabilities payable on demand by FSL. As such FSL can pass these liabilities on to the FFL group under the terms of the securitisation structure.

The liabilities linked to the terminated interest rate swaps rank senior to the loans from FSL and the liabilities linked to the terminated inflation swaps rank pari passu with these loans.

The FFL directors had previously employed independent third-party experts to value the liabilities arising from the swap breaks. These values were lower than the amounts stated as due by FSL's bank counterparties. The level of the liabilities for these swap contracts has now been established between the FFL group, the bank swap counterparties and the noteholders. The Shareholder Lock-up Agreement documents that any claim that the Group entities may have had has been waived. The total liability has been established at £589.2m compared to the previous value placed on the liability of £376.4m. The charge of £5.8m in the period and liability reflected in these financial statements represents this entity's share of the total liability.

Loan and swap liability repayment

As noted above the Shareholder Lock-up Agreement is in place which provides for a consensual restructuring of the debt and transfer of the property-owning companies in the securitised financing structure to a new holding company. Once the agreement is implemented the loan and swap liabilities to FSL will be released.

Going concern (continued)

Debt Service

Interest arising on the loan notes, together with a margin, is recharged by FSL to FFL which in turn makes a recharge to the property-owning companies, including the company. The payment of this recharge is funded, in full or in part, from ground rent income and other income.

The appointed Cash Manager in the structure controls payments made by the companies within the FFL Group. Since the repayment default by FFL in October 2015 debt service payments have been suspended by the Cash Manager at the request of the majority of the Note holders. The allocation of the funds that have accrued and will accrue up to the date of the planned restructuring and sale are subject to the terms of the Shareholder Lock-up Agreement.

For the above reasons the directors are of the opinion that the company will continue to trade with all trading liabilities continuing to be met as they fall due for the foreseeable future, which is considered to be a period of at least 12 months from the date of approval of these financial statements.

Conclusion

For the reasons stated above the directors are of the opinion that the company will continue to trade and all liabilities will continue to be met as they fall due for the foreseeable future, being 12 months from the date of approval of these financial statements. The Shareholder Lock-up Agreement is expected to be implemented in early 2020 with the company's existing liabilities being restructured and the company transferred to a new holding company and funding structure. The directors consider that it is highly unlikely that the Shareholder Lock-up Agreement will not be implemented as a majority of each of the major categories of creditors are party to that agreement.

As each party to the Shareholder Lock-Up agreement has undertaken to implement the proposed restructuring of the company's liabilities, the financial statements have been prepared on the going concern basis. These financial statements reflect the write down on investment properties and increase in swap cancellation costs as established by the Shareholder Lock-Up agreement, but any excess liabilities will not be released until such time as the transaction completes. The financial statements do not contain any further adjustments that would arise if the Shareholder Lock-Up agreement is not implemented. Such adjustments would be likely to include, but are not limited to, material impairment of the value of the company's investment properties as the directors recognise, given the unusual nature and lack of a regular market for such portfolios of assets, that these carrying values may not be realised should the company seek to dispose of the investment properties.

Investment properties

The company's holdings of Freehold Reversionary Interests are classified as Investment Properties and are originally 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.

The company's Freehold Reversionary Interests, as their name implies, represent interests held in the freehold land on which other 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 and other ancillary income streams.

In normal circumstances there is an expectation that the properties are to be held for the long term. Due to 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. However, in the light of the post year end Shareholder Lock-Up Agreement which is expected to lead to a change of control and new short duration unhedged financing arrangements the directors have changed the basis of the valuation due to uncertainty as to whether the assets will continue to be held for the long term. The new basis of valuation reflects the amounts of new debt to be issued under the terms of that agreement. Previously the valuation of the entire Freehold Reversionary Interest portfolio was undertaken by the directors based on periodic actuarial valuations carried out by a leading firm of third party actuarial consultants.

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.

Further details are given in note 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 is not discounted.

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.

Rent receivable

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

Finance costs

Finance costs are amortised on a straight line basis over the term of the loan to which they relate.

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

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 expenses.

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.

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 areas of judgement (continued)

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.

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. In the light of the post year end Shareholder Lock-Up Agreement the directors have changed the basis of valuation to reflect the amounts of new debt to be issued under the terms of that agreement. Previously the company used periodic 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 group'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, the risk of which is heightened due to the potential legislative changes noted below.

In December 2018 the Department for Communities and Local Government, now known as the Ministry for Housing, Communities and Local Government (MHCLG) published the outcome of the 'Tackling unfair practices in the leasehold market' consultation it had conducted during the year.

Since this date the Government, through the MHCLG, is undertaking a series of further consultations on the residential property market with a focus on the legal framework surrounding the freehold and leasehold classes of property interests. Interim proposals have been put forward that, if implemented, may, over time, lead to a material reduction in the level of ground rent generated by the portfolio. In addition, the MHCLG has asked the Law Commission to advise on potential changes to the existing law with the purpose of making enfranchisement and lease extensions easier and cheaper for leaseholders. The Law Commission presented options for reform to the Government on 9 January 2020. The implementation of any such changes could also materially reduce the level of income generated by the portfolio. Such changes, if implemented, would be a significant threat to the group.

The directors are of the view that the proposed changes (as currently formulated) would be very damaging to the residential property market and against the interests of consumers and other property owners. The directors have engaged actively in the consultations and with other stakeholders and interested parties in order to convey the group's opposition to the current proposals. Recent public announcements by government and in symposiums held by the Law Commission, have both recognised that the proposals to make wholesale reforms retrospectively poses real problems with respect to the contravention of human rights legislation and the suggestion has been made that the reforms will affect future leases and not those already in existence. The directors are confident that the proposals in their current form are unlikely to be passed into law.

An intrinsic element of the long-term forecasts used in the property valuations in prior years was the continuing rental income and lease extension premiums generated by the property assets held by these subsidiaries. The potential legislative changes raised above may affect these income streams to the extent that the underlying assumptions are no longer valid and the forecasts that underpin the prior year valuation would not be achievable.

Critical accounting estimates and areas of judgement (continued)

Valuation of investment properties (continued)

However, the likelihood of the changes coming in to effect and the financial consequences of those changes are too uncertain to enable the directors to reasonably estimate the impact of such changes on those forecasts.

Further details of the valuation of the investment property are set out in note 7.

Current taxation

In arriving at the tax charge for the year the directors have been required to consider legislation introduced by HMRC in respect of Corporate Interest Restrictions and restrictions on the use of losses from the 1st April 2017.

These rules are complex and may have a material impact on the group's tax charge. In preparing these financial statements the directors have assumed that the corporate interest restriction is to apply such that the company will have neither taxable income nor a taxable loss for the year.

The directors believe that their assumptions are reasonable.

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.

Deferred tax of £Nil (2018: £1.6m), has been provided for in these financial statements. In arriving at the provision, the directors have taken full allowance for the value of cumulative brought forward tax losses of £1.7m (2018: £1.7m).

1. Turnover

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

	2019	2018
	£	£
Rent receivable	230,393	230,373

2. Interest receivable and similar income

	2019	2018
	£	£
Bank interest	379	174

3. Interest payable and similar expenses

	2019	2018
	£	£
Swap break costs and interest thereon	5,760,244	127,262
Interest on parent company loan	260,587	237,828
	6,020,831	365,090

4. (Loss)/profit before taxation

(Loss)/profit before taxation is stated after charging:	**2019**	2018
	£	£
Auditor's remuneration	-	-

The auditor's remuneration of £13,114 (2018: £10,000) has been borne by the parent company, Fairhold Finance Limited.

5. Employees and directors

No persons were employed during the year or the prior year, other than the directors. The directors are not remunerated by the company, and it has not been possible to apportion any remuneration paid by related party entities.

6. Taxation

	2019	2018
	£	£
Current tax		
UK corporation tax	-	-
Total current tax	-	-
Deferred tax:		
Effect of movement on indexation allowance	-	(9,000)
(Losses)/gains on investment property	(1,639,000)	51,000
Total deferred tax	(1,639,000)	42,000
Total tax on (loss)/profit	(1,639,000)	42,000

Factors affecting the tax (credit)/charge for the year:

The tax assessed for the year is higher than the effective rate of corporation tax in the UK 19% (2018: 19%). The differences are explained below:

	2019	2018
	£	£
(Loss)/profit before tax	(17,632,617)	85,190
(Loss)/profit multiplied by the effective rate of corporation tax in the UK of 19% (2018: 19%).	(3,350,197)	16,186
Effects of:		
Deferred tax adjustment in respect of investment property	618,000	(15,000)
UK transfer pricing adjustments	10,147	9,046
Disallowable expenditure	11,447	31,473
Group relief	-	295
Corporate interest restriction	1,071,603	-
Current tax (credit)/charge for the year	1,639,000	42,000

The company has estimated losses of £10.0m (2018: £10.0m) available to carry forward against future trading profits. A deferred tax asset has been recognised on these losses included in note 10.

7. Investment properties

	Freehold reversionary interests £
Valuation	
At 1 November 2018	25,000,000
Fair value adjustment	(11,879,000)
At 31 October 2019	13,121,000

The investment properties represent a portfolio of Freehold Reversionary Interests that generate ground rents as the principal income stream.

In normal circumstances there is an expectation that the properties are to be held for the long term. Due to 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. However, in the light of the post year end Shareholder Lock-Up Agreement the directors have changed the basis of the valuation in order to reflect the amounts of new debt to be issued under the terms of that agreement. Previously the valuation of the entire Freehold Reversionary Interest portfolio was undertaken by the directors based on periodic actuarial valuations carried out by a leading firm of third party actuarial consultants.

The investment properties were last valued on an actuarial basis by a leading firm of independent financial and actuarial consultants as at 28 February 2015 at a value of £18.9m. At 31 October 2018 the directors reviewed the actuarial valuations undertaken during 2015 and, based on market changes in the intervening period, determined their own valuation.

The basis of the most recent independent valuation performed on an actuarial basis was to project risk adjusted income streams generated by the portfolio, over 50 years, discounted by a risk free rate of return, together with an assessment of the residual value at the end of the 50 year term.

The principal assumptions used in this 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 rate of transfer fees	- demographic profile.

The assumption with the most significant impact on the prior year valuation is the discount rate used. A 1% increase or decrease in this rate reduces or increases the valuation by 27% and 41% respectively.

The historical cost of the properties at 31 October 2019 was £3,714,657 (2018: £3,714,657).

8. Debtors

	2019	2018
	£	£
Amounts due within one year		
Trade debtors	7,769	5,608
Amounts owed by group undertakings	3,051,836	3,051,836
	3,059,605	3,057,444

9. Creditors - amounts falling due within one year

	2019	2018
	£	£
Amounts due to parent undertaking	23,794,068	17,985,565
Accruals and deferred income	86,195	146,979
	23,880,264	18,132,544

The amounts due to parent undertaking represent intercompany loans entered into with Fairhold Finance Limited, along with swap break liabilities which have arisen following the passing of the repayment date. The intercompany loans are split into two tranches, Tranche A and Tranche B, which were due for repayment when the loans matured in October 2015. Interest payable on these loans is 6-month British pound sterling LIBOR plus margins of 0.625% and 1.25% respectively. Since the loan repayment date has passed additional default interest of 1% is being charged on the unpaid interest balances.

In addition, there were back to back swap instruments in place hedging interest rate and inflation risk. The main swaps were broken between Fairhold Securitisation Limited and its two bank counterparties on or about 10 October 2015. Fairhold Securitisation Limited, in turn, terminated the swaps it held with Fairhold Finance Limited which in turn terminated its swap contracts with the property-owning companies in the securitisation structure creating liabilities payable on demand by Fairhold Securitisation Limited. The level of liabilities for these swap contracts has now been established between the FFL group, the bank swap counterparties and the noteholders. The Shareholder Lock-Up Agreement documents that any claim that the Group entities may have had has been waived.

The liabilities linked to the terminated interest rate swaps that hedged the loans from Fairhold Securitisation Limited rank senior to these loans.

10. Provision for liabilities

	Deferred taxation £
1 November 2018	1,639,000
Release of provision in the year	(1,639,000)
31 October 2019	-

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

	2019 £	2018 £
Deferred tax arising on assets measured at fair value	1,699,000	3,338,000
Tax losses available	(1,699,000)	(1,699,000)
	-	1,639,000

11. Share capital and reserves

Share capital

	2019 £	2018 £
Allotted, issued and fully paid:		
2 ordinary shares of £1 each	2	2

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.

Reserves

Reserves of the company represent the following:

Retained earnings
Cumulative profit and loss net of distributions to owners.

12. **Contingent liability**

The company has given guarantees in respect of a funding loan agreement entered into between its parent company, Fairhold Finance Limited (FFL), and Fairhold Securitisation Limited (FSL), a standalone securitisation vehicle, which has issued variable rate bonds quoted on the Irish Stock Exchange. The funding loan has been lent on to the property-owning subsidiaries of Fairhold Finance Limited, which includes the company. The company's element of the borrowings is set out in note 9. The guarantees are supported by a debenture and a charge over the company's investment properties. The company's allocation of the swap break cost has been provided for in these financial statements and is included within the liabilities set out in note 9.

13. **Immediate and United Kingdom holding company**

The company is a wholly owned subsidiary undertaking of Fairhold Finance Limited, which is registered in England and Wales. This parent undertaking is the holding company of both the largest and smallest group for which consolidated accounts are prepared and of which the company is a member. Copies of the financial statements are available from Companies House, Crown Way, Maindy, Cardiff, CF14 3UZ.

14. **Ultimate holding company**

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

15. **Ultimate controlling party**

The ultimate controlling party is the Tchenguiz Family Trust.

16. **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.