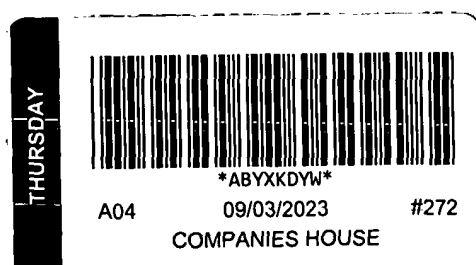


Registration number: 04104102

RI SB Hereford Limited

Directors' Report and Financial Statements

for the Year Ended 31 December 2021



Contents

Directors' Report	1 to 3
Independent Auditors' Report to the members of RI SB Hereford Limited	4 to 7
Profit and Loss Account and Other Comprehensive Income	8
Balance Sheet	9
Statement of Changes in Equity	10
Notes to the Financial Statements	11 to 21

Directors' Report For the Year Ended 31 December 2021

The Directors present their report and the financial statements for the year ended 31 December 2021.

Directors' responsibilities statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Business review and principal activities

As shown in the Profit and Loss Account and Other Comprehensive Income on page 8, the Company's profit on ordinary activities before taxation is £4,357,309 (2020: profit £2,216,326).

Dividends of £496,155 were paid in the year (2020: £1,164,975).

Directors' Report

For the Year Ended 31 December 2021 (continued)

Directors

The directors, who held office during the year and up to the date of signing the financial statements, were as follows:

P Windsor (ceased 19 November 2021)

M Mire (ceased 9 June 2022)

M Pfeiffer (ceased 12 May 2021)

N Abraham (appointed 12 May 2021 and ceased 9 June 2022)

C Rotsey (appointed 18 August 2021)

The following directors were appointed after the year end:

E Noguera (appointed 9 June 2022)

J Emly (appointed 9 June 2022)

C Warren (appointed 9 June 2022 and ceased 16 August 2022)

Environmental matters

The Company will seek to minimise adverse impacts on the environment from its activities, whilst continuing to address health, safety and economic issues. The Company has complied with all applicable legislation and regulations.

Non-going concern

The Directors and the shareholders have the intention to restructure the group and it is therefore intended that the investment property will be transferred to a related group entity, all intergroup financing repaid, and the entity liquidated. The Directors do not anticipate any significant impact of the non going concern assumption given the fair value of the property by an independent valuer and the liquidity of the other assets and liabilities being at fair value. Therefore these accounts are prepared on a non-going concern basis.

Disclosure of information to the auditor

Each of the persons who are Directors at the time when this Directors' Report is approved has confirmed that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor are unaware, and
- the Director has taken all the steps that ought to have been taken as a Director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Directors' Report
For the Year Ended 31 December 2021 (continued)


Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Small companies note

In preparing this report, the Directors have taken advantage of the small companies exemptions provided by section 415A of the Companies Act 2006.

This report was approved by the board on 27 February 2023 and signed on its behalf by:

DocuSigned by:

.....EB49E77B2C124F1.....
C Rotsey
Director
8 Sackville Street
London
W1S 3DG

Independent Auditors' Report to the Members of RI SB Hereford Limited

Opinion

We have audited the financial statements of RI SB Hereford Limited (the "Company") for the year ended 31 December 2021, which comprise the Profit and Loss Account and Other Comprehensive Income, Balance Sheet, Statement of Changes in Equity, and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Emphasis of matter - non-going concern basis of preparation

We draw attention to the disclosure made in note 2 to the financial statements which explains that the financial statements have not been prepared on the going concern basis for the reasons set out in that note. Our opinion is not modified in respect of this matter.

Fraud and breaches of laws and regulations – ability to detect

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of the Directors of whether they are aware of fraud and of the Company's high-level policies and procedures to prevent and detect fraud; and
- Reading Board minutes.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as investment property valuations.

We did not identify any additional fraud risks.

On this audit we do not believe there is a fraud risk related to revenue recognition because the Company's income primarily arises from operating lease contracts with fixed, or highly predictable, periodic payments.

We performed procedures including:

- identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included journal entries containing certain key words, journal entries ending with round numbers or are just below an authorisation or review limit and those posted with unexpected account combinations.

Independent Auditors' Report to the Members of RI SB Hereford Limited (continued)

Fraud and breaches of laws and regulations – ability to detect (continued)

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the Directors (as required by auditing standards) and discussed with the Directors the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies' legislation), distributable profits and taxation legislation. We assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: landlord and tenant legislation, property laws and building legislation, recognising the nature of the Company's activities.

Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing noncompliance or fraud and cannot be expected to detect non-compliance with all laws or regulation.

Directors' report

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

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

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

Independent Auditors' Report to the Members of RI SB Hereford Limited (continued)

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 1, the Directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities


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

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

Independent Auditors' Report to the Members of RI SB Hereford Limited (continued)

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

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



Craig Steven-Jennings (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL

Date: 7 March 2023

**Profit and Loss Account and Other Comprehensive Income
For the Year Ended 31 December 2021**

	Note	2021 £	2020 £
Turnover	4	<u>2,103,051</u>	<u>2,103,079</u>
Gross profit		2,103,051	2,103,079
Administrative expenses		(30,303)	(50,480)
Gain on revaluation of investment property	9	<u>3,212,743</u>	<u>1,101,266</u>
Operating profit		5,285,491	3,153,865
Interest receivable		-	1,042
Interest expense	5	<u>(928,182)</u>	<u>(938,581)</u>
Profit before tax		4,357,309	2,216,326
Tax on profit	8	<u>(280,420)</u>	<u>(275,893)</u>
Profit for the financial year		<u><u>4,076,889</u></u>	<u><u>1,940,433</u></u>

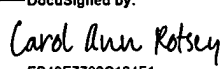
There was no other comprehensive income for 2021 (2020:£nil).

Balance Sheet
As at 31 December 2021

	Note	2021 £	2020 £
Fixed assets			
Investment property	9	40,683,598	37,470,856
Lease incentives	10	4,479,396	4,592,139
		<u>45,162,994</u>	<u>42,062,995</u>
Current assets			
Debtors: amounts falling due within one year	11	1,357,849	915,786
Lease incentives	10	337,005	337,005
		<u>1,694,854</u>	<u>1,252,791</u>
Creditors: amounts falling due within one year	12	(955,182)	(993,854)
Net current assets		<u>739,672</u>	<u>258,937</u>
Total assets less current liabilities		<u>45,902,666</u>	<u>42,321,932</u>
Loans and borrowings	13	(31,408,773)	(31,408,773)
Net assets		<u>14,493,893</u>	<u>10,913,159</u>
Capital and reserves			
Called up share capital	14	196,000	196,000
Profit and loss account		<u>14,297,893</u>	<u>10,717,159</u>
Shareholders' funds		<u>14,493,893</u>	<u>10,913,159</u>

The Company's financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies regime within Part 15 of the Companies Act 2006.

The financial statements of RI SB Hereford Limited, (registration number: 04104102) were approved and authorised for issue by the board on 27 February 2023 and were signed on its behalf by:

DocuSigned by:

EB49E7782C124F1.....
 C Rotsey
 Director
 8 Sackville Street,
 London,
 W1S 3DG,
 England

The notes on pages 11 to 21 form an integral part of these financial statements.

Statement of Changes in Equity for the Year Ended 31 December 2021

	Called up share capital £	Profit and loss account £	Total equity £
At 1 January 2020	196,000	9,941,701	10,137,701
Profit for the year	-	1,940,433	1,940,433
Dividends paid	-	(1,164,975)	(1,164,975)
At 31 December 2020	<u>196,000</u>	<u>10,717,159</u>	<u>10,913,159</u>
At 1 January 2021	196,000	10,717,159	10,913,159
Profit for the year	-	4,076,888	4,076,888
Dividends paid	-	(496,155)	(496,155)
At 31 December 2021	<u>196,000</u>	<u>14,297,892</u>	<u>14,493,892</u>

The notes on pages 11 to 21 form an integral part of these financial statements.

Notes to the Financial Statements for the Year Ended 31 December 2021

1 General information

RI SB Hereford Limited ("the Company") is a private company limited by share capital, incorporated and domiciled in England, United Kingdom.

The address of its registered office is 8 Sackville Street, London, England, W1S 3DG. Its registered number is 04104102.

2 Accounting policies

2.1 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies (see note 3).

The following principal accounting policies have been applied:

2.2 Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of UK-adopted international accounting standards ("Adopted IFRSs"), but makes amendments where necessary, in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of investments properties. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

2.3 Summary of disclosure exemptions

The company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers
- the requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases. The requirements of paragraph 58 of IFRS 16, provided that the disclosure of details in indebtedness relating to amounts payable after 5 years required by company law is presented separately for lease liabilities and other liabilities, and in total

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

2 Accounting policies (continued)

2.3 Summary of disclosure exemptions (continued)

- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
 - paragraph 79(a)(iv) of IAS 1;
 - paragraphs 76 and 79(d) of IAS 40 Investment Property; and
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements
- the requirements of IAS 7 Statement of Cash Flows
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member
- the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

2.4 Non-going concern

The financial statements have been prepared under the non going concern basis which the Directors consider to be appropriate given the Directors and the shareholder have the intention to restructure and transfer the Investment Property into a related entity within 12 months from the signing of these financial statements. The Directors will then settle the borrowings and proceed to place the Company into liquidation. The Directors do not anticipate any significant impact of the non going concern assumption given the fair value of the property by an independent valuer and the liquidity of the other assets and liabilities being at fair value.

2.5 Turnover

Rental income is recognised on a straight-line basis. Where a rent-free period is included in a lease, the rental income foregone is allocated evenly over the period from the date of lease commencement to the end of the lease term.

Rental income from fixed and minimum guaranteed rent reviews is recognised on a straight-line basis over the entire lease term. Where such rental income is recognised ahead of the related cash flow, an adjustment is made to ensure that the carrying value of the related property including the accrued rent does not exceed the external valuation. Initial direct costs incurred in negotiating and arranging a new lease are amortised on a straight-line basis over the period from the date of lease commencement to the end of the lease term.

Where a lease incentive payment, including any surrender premia paid, does not enhance the value of a property, it is amortised on a straight-line basis over the period from the date of lease commencement to the end of the lease term. Upon receipt of a surrender premium for the early determination of a lease, the profit, net of dilapidations and non-recoverable outgoings relating to the lease concerned, is immediately reflected in income.

2.6 Taxation

Tax is recognised in profit or loss except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

2 Accounting policies (continued)

2.6 Taxation (continued)

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the Company operates and generates income.

Taxable profit differs from net profit as reported in the Profit and Loss Account because it excludes items of income or expense that are not taxable (or tax deductible). BLSSP Property Holdings Limited (including this Company) became a REIT on 1 January 2007 where income and gains on qualifying assets are exempt from taxation. On 26 March 2008, the sale of 45% of the group to a non-REIT entity resulted in now only 55% of the income and gains on qualifying assets being exempt from taxation.

As at 23 May 2019, the Company ceased to be a member of BLSSP Property Holdings Limited. As at the sale date, the Company will be unable to utilise BLSSP group tax relief or have REIT exemption. At this date the company was sold to Realty Income and was able to utilise Realty Income group relief tax. Group relief includes two separate groups - the first is related to the seller (British Land/Sainsbury's) that owned the entities from April 1st through 23 May 2019. The second is related to the ownership period after sale belonging to Realty Income.

Deferred tax is provided on items that may become taxable at a later date, on the difference between the balance sheet value and tax base value, on an undiscounted basis.

2.7 Investment property

Investment properties are initially recognised at cost and subsequently measured at fair value. Its fair value is determined annually by external valuers and derived from the current market rents and investment property yields for comparable real estate, adjusted if necessary for any difference in the nature, location or condition of the specific asset. No depreciation is provided. Changes in fair value are recognised in profit or loss.

2.8 Financial instruments

The Company recognises financial instruments when it becomes a party to the contractual arrangements of the instrument. Financial instruments are de-recognised when they are discharged or when the contractual terms expire. The Company's accounting policies in respect of financial instruments transactions are explained below:

Financial assets and financial liabilities are initially measured at fair value. A trade receivable without a significant financing component is initially measured at the transaction price.

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

2 Accounting policies (continued)

2.8 Financial instruments (continued)

Financial Assets

All recognised financial assets are subsequently measured in their entirety at either fair value or amortised cost, depending on the classification of the financial assets.

Fair value through profit or loss

All of the Company's financial assets other than those which meet the criteria to be measured at amortised cost are subsequently measured at fair value at the end of each reporting year, with any fair value gains or losses being recognised in profit or loss to the extent they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset.

Debt instruments at amortised cost

Debt instruments are subsequently measured at amortised cost where they are financial assets held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and selling the financial assets, and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Amortised cost is calculated using the effective interest method and represents the amount measured at initial recognition less repayments of principal plus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount, adjusted for any loss allowance.

Impairment of financial assets

The Company recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised or at FVOCI. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Company always recognises lifetime ECL for trade receivables and amounts due on contracts with customers. The expected credit losses on these financial assets are estimated based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument.

Financial liabilities

Financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument and are initially measured at fair value. The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are issued principally for the purpose of repurchasing in the near term, or form part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking, or are derivatives, including separately embedded derivatives unless they are financial guarantee contracts or are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

2 Accounting policies (continued)

2.8 Financial instruments (continued)

Financial liabilities (continued)

Financial liabilities at amortised cost

Financial liabilities which are not held for trading or are not financial liabilities designated upon initial recognition as at fair value through profit or loss are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Derecognition of financial liabilities

A liability is derecognised when the contract that gives rise to it is settled, sold, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such as an exchange or modification, this is treated as a derecognition of the original liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss.

2.9 Leases

The Company as a lessor

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating leases: the Company as lessor

Rental income from operating leases is credited to profit or loss on a straight line basis over the lease term.

Amounts paid and payable as an incentive to sign an operating lease are recognised as a reduction to income over the lease term on a straight line basis, unless another systematic basis is representative of the time pattern over which the lessor's benefit from the leased asset is diminished.

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

3 Judgements in applying accounting policies and key sources of estimation uncertainty

The preparation of the financial statements under FRS 101 requires the Directors to make judgements, estimates and assumptions that affect the application of accounting policies, the reported amounts of assets and liabilities as at the date of the financial statements and the reported amount of revenue and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements that are not readily apparent from other sources. However, the actual results may differ from these estimates. The key area where management has made significant judgements is around estimates regarding the valuation of properties on the balance sheet.

The key assumptions made in the valuation of the Company's investment properties are:

- the amount and timing of future income streams;
- anticipated maintenance costs and other landlord's liabilities; and
- an appropriate yield.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised.

4 Turnover

The analysis of the Company's turnover for the year is as follows:

	2021	2020
	£	£
Rental income	2,440,056	2,440,084
Lease incentive amortisation	<u>(337,005)</u>	<u>(337,005)</u>
	<u>2,103,051</u>	<u>2,103,079</u>

All turnover arose within the United Kingdom.

5 Interest expense

	2021	2020
	£	£
Loans from group undertakings	<u>928,182</u>	<u>938,581</u>

Interest payable on amounts owed to group companies relates to subordinated loans with Tau Operating Partnership, further details of which are disclosed in notes 12 and 13.

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

6 Auditors' remuneration

	2021 £	2020 £
Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements	<u>11,750</u>	<u>11,600</u>

No non-audit fees (2020: £nil) were paid to KPMG LLP.

7 Staff costs

No Director received any remuneration for services to the Company in the current year or prior year. The remuneration of the Directors was borne by another company, for which no apportionment or recharges were made. The value of this service was negligible.

Average number of employees, excluding Directors, of the Company during the year was (2020: nil).

8 Taxation

	2021 £	2020 £
Corporation tax		
Current tax on profits for the year	<u>280,420</u>	<u>275,893</u>
Taxation on profit on ordinary activities	<u>280,420</u>	<u>275,893</u>

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2020 - the same as) the standard rate of corporation tax in the UK of 19% (2020 - 19%) as set out below:

	2021 £	2020 £
Profit before tax	4,357,309	2,216,326
Add: unrealised gain of investment properties	(3,212,743)	(1,101,266)
Add: Lease incentive amortisation	<u>337,005</u>	<u>337,005</u>
Profit on ordinary activities before tax	<u>1,481,571</u>	<u>1,452,065</u>

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

8 Taxation (continued)

Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2020 - 19%)	281,498	275,893
Effects of:		
Prior year adjustment	(1,501)	-
Other	423	-
Total tax charge for the year	280,420	275,893

Factors that may affect future tax charges

The Finance Act 2021 enacted provisions to increase the main rate of UK corporation tax from 19% to 25% from 1 April 2023.

9 Investment property

	2021 £	2020 £
Fair value		
At beginning of year	37,470,855	36,369,590
Add: revaluation profit	3,212,743	1,101,266
Closing balance, net of lease incentives	40,683,598	37,470,856
Reconciliation of the fair value of investment property:		
Closing balance, net of lease incentives	40,683,598	37,470,856
Add: lease incentives	4,816,402	4,929,144
Fair value of the property per the valuation report	45,500,000	42,400,000
Analysis of cost and valuation		
Cost	27,100,179	27,100,179
Accumulated valuation on investment properties	18,399,821	15,299,821
Net book value	45,500,000	42,400,000

At 31 December 2021 the value of investment properties owned by the Company was £45,500,000 (31 December 2020: £42,400,000).

Investment properties are valued by adopting the "investment method" of valuation. This approach involves applying capitalisation yields to current and estimated future rental streams net of income voids arising from vacancies or rent-free periods and associated running costs. These capitalisation yields and rental values are based on comparable property and leasing transactions in the market, using the valuers' professional judgement and market observation. Other factors taken into account in the valuations include the tenure of the property, tenancy details and ground and structural conditions.

The properties were independently valued to fair value as at 31 December 2021 by CBRE Limited (31 December 2020 valuations were also performed by CBRE Limited) in accordance with the RICS Valuation - Global Standards, published by The Royal Institutions of Chartered Surveyors.

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

9 Investment property (continued)

Properties valued at £45,500,000 (31 December 2020: £42,400,000) were charged to secure borrowings of the intermediate holding Company.

All investment properties have been categorised as a level 3 fair value.

The Company leases out all of its investment properties under operating leases. The future aggregate minimum rentals receivable under non-cancellable operating leases are as follows:

	2021 £	2020 £
Leases less than one year	2,256,141	2,217,338
Leases between one to two years	2,295,624	2,256,141
Leases between two to three years	2,335,797	2,295,624
Leases between three to four years	2,376,674	2,335,797
Leases between four to five years	2,418,266	2,376,674
Leases greater than five years	19,241,528	21,659,794
	<u>30,924,030</u>	<u>33,141,368</u>

10 Lease incentives

	2021 £	2020 £
Lease incentives	5,476,403	5,490,820
Less: amortisation	<u>(660,002)</u>	<u>(561,676)</u>
Lease incentives, net	<u>4,816,401</u>	<u>4,929,144</u>

	2021 £	2020 £
Non current lease incentives	4,479,396	4,592,139
Current lease incentives	<u>337,005</u>	<u>337,005</u>
Lease incentives, net	<u>4,816,401</u>	<u>4,929,144</u>

Lease incentives are amortised over the life of the lease in accordance with IFRS16, the adjusted lease transaction date is the sale date 23 May 2019 and the end date is 23 May 2034.

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

11 Debtors: amounts falling due within one year

	2021	2020
	£	£
Amounts owed by group undertakings	1,355,324	912,306
Other debtors	1,213	1,958
Prepayments and accrued income	1,312	1,522
	<u>1,357,849</u>	<u>915,786</u>

Debtors from related parties relate to amounts due from group companies which are repayable on demand, there are no interest charged on these balances.

12 Creditors: amounts falling due within one year

	2021	2020
	£	£
Deferred income	528,132	519,443
Amounts owed to group undertakings	209,625	209,625
Corporation tax	105,805	45,385
Other taxation and other social security	111,620	219,401
	<u>955,182</u>	<u>993,854</u>

Amounts owed to related parties include loans owed to group companies which are repayable on demand and the Company's expenses paid by the group companies on behalf of the Company. The latter is excluded from the analysis of Borrowings on note 13.

13 Loans and borrowings

	2021	2020
	£	£
Long term loans - amounts owed to group companies	<u>31,408,773</u>	<u>31,408,773</u>
	<u>2021</u>	<u>2020</u>
	£	£
Borrowing analysis		
Loans due after one year subordinated loans from Tau Operating Partnership	<u>31,408,773</u>	<u>31,408,773</u>
Total borrowings	<u>31,408,773</u>	<u>31,408,773</u>

The 15-year loan of £31,408,773 with a nominal annual interest rate of 2.98%. There are no contractual repayments of the principal until 20 May 2034. The Directors do not anticipate any significant impact of the non going concern assumption given the fair value of the property by an independent valuer and the liquidity of the other assets and liabilities being at fair value.

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

14 Share capital

	2021 £	2020 £
Authorised, allotted, called up and fully paid		
196,000 (2020 - 196,000) Ordinary shares of £1 each	<u>196,000</u>	<u>196,000</u>

15 Capital commitments

The Company had no capital commitments contracted as at 31 December 2021 (31 December 2020: £nil).

16 Parent and ultimate parent undertaking

The immediate parent Company is RI SB Limited, a Company incorporated in Jersey, Channel Islands.

The ultimate parent and largest group in which the results of the Company are consolidated is that headed by Realty Income Corporation. The consolidated financial statements of Realty Income Corporation are available to the public and may be obtained from 11995 El Camino Real, San Diego, CA 92130.