Company Registration No. 06064226 (England and Wales)

P1 REVERSIONS LIMITED

REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 MARCH 2019

P1 REVERSIONS LIMITED

COMPANY INFORMATION

Directors	Mr G Devitt Mr M J Northover Mr J N Spinney
Secretary	DMS Governance (UK) Limited
Company number	06064226
Registered office	C/O DMS Governance (UK) Limited Suite 402 52 Brook Street London W1K 5DS
Auditor	Ernst & Young LLP 1 More London Place London SE1 2AF
Investment advisor	PMM Advisers (Shared Equity) Limited 54 Jermyn Street London SW1Y 6LX
Parent of investment advisor	PMM Advisers LLP 54 Jermyn Street London SW1Y 6LX
Legal advisors	TLT 1 Redcliff Street Bristol BS1 6TP and Ropes and Gray 60 Ludgate Hill London EC4M 7AW

The directors present their strategic report for the year ended 31 March 2019.

Review of the business

The principal activity of the company is the ownership and management of rights under a contract of a portfolio of residential property reversions located throughout the UK, giving rise to an income stream as properties are sold.

The company entered into the contract in December 2007, under which it acquired a right to proceeds in respect of future disposals of 3,325 properties owned by third parties ("the contract"). As at 31 March 2019, 786 (31 March 2018: 918) properties remained in the portfolio. The contract was originally entered into at a cost of £236.8 million of which £99.9 million (31 March 2018: £115.8 million) remained at the balance sheet date.

The company receives a percentage (increasing annually at 31 December) of gross sale proceeds when properties are sold by counterparties under the contract. The company received 70.9% (2017: 69.6% restated) of the gross sale proceeds for the calendar year ended 31 December 2018. The percentage rose to 72% for the period from 1st January 2019 to 31st March 2019 and is expected to rise to 73.1% in 2020 and increase annually until reaching 79.9% in 2032.

During the year to 31 March 2019, the company received £18 5 million under the contract compared to £21.9 million in the prior year. Turnover depends on sales volumes and house values achieved on sale: 132 properties sold in the year at an average margin over the revised acquisition cost of 10% compared to 153 properties in the prior year, also at an average margin of 3%. The volume of sales is dependent on the timing of sales by the contract counterparty as is outside of the control of the company. Fluctuations are, therefore, to be expected from year to year.

Principal risks and uncertainties

Turnover is also dependent on the effects of house price inflation but is otherwise expected to increase year in line with the increasing share of gross sale proceeds received by the company, as mentioned above.

The underlying properties were revalued at year end with Hometrack providing valuation. Regional valuation haircuts were applied based on observed differences and individual property case reviews were then undertaken on factors including completed sales, properties available for sale, restricted use and high value cases over £500k. There revaluations, combined with lower forecast HPI assumptions from Savill's resulted in a downward revision of the fair value by £5.5 million at the balance sheet date.

Market risk

The fair value of the company's investment is sensitive to house market conditions in the UK. As at the year end date 55% of the underlying assets were located in London and the South East where market conditions have historically been strongest. Forecast HPI for 2019 is -2.0% for London and 0% for the South East, a more negative short term view compared to the prior year.

Financing risk

During the year, the company repaid the secured bank loans maturing in December 2017 and refinanced with an unsecured loan note maturing in November 2032. The company does not have an immediate financing risk.

On behalf of the board

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Director

Date: 12/7/19

P1 REVERSIONS LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2019

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

Principal activities

The principal activity of the company continued to be that of the ownership of rights under a contract over a portfolio of residential property reversions located throughout the UK, giving rise to an income stream as properties are sold.

Directors

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

Mr G Devitt	(Appointed 22 November 2017)
Mr M J Northover	(Appointed 22 November 2017)
Mr J N Spinney	(Appointed 22 November 2017)

Results and dividends

The results for the year are set out on page 10.

No ordinary dividends were paid. The directors do not recommend payment of a final dividend.

Future developments

Revenues are dependent on the proceeds obtained from the sales of residential property, the timing of which is outside of the control of the company. The company intends to continue to operate as it has done since inception.

Auditor

Ernst & Young LLP was appointed as auditor to the company in March 2018 and in accordance with section 485 of the Companies Act 2006, a resolution proposing that they be re-appointed was passed at a General Meeting.

Strategic report

The company has chosen in accordance with Companies Act 2006, s. 414C(11) to set out in the company's strategic report information required by Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, Sch. 7 to be contained in the directors' report.

Statement of disclosure to auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the company's auditor is unaware. Additionally, each director has taken all the necessary steps that they ought to have taken as a director in order to make themselves aware of all relevant audit information and to establish that the company's auditor is aware of that information.

Going Concern

The directors have prepared cash flow forecasts for 12 months from the date of approval of these financial statements that indicate that liabilities will be settled as they fall due. Consequently, at the time of approving the financial statements, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus the directors continue to adopt the going concern basis of accounting in preparing the financial statements.

During the year the company generated a loss of £2.8m (2018 – £9.3m). As at 31 March 2019, the company has a net liability position of £1.9m (2018 – Net assets position of £1m). The company has a liability of £105m with respect to the loan note issued to its shareholder. The loan note carries a fixed interest rate of 4.04%, is unsecured and matures on 22 November 2032. The company continues to hold income generating assets which it believes will generate surpluses in future periods.

Risk management objectives and policies

Price - The risk of residential property being sold below the market value, adversely affecting revenues and gross profits. Sales prices are reviewed by the investment advisor against recently traded assets with similar attributes. Where there is a discrepancy, the investment advisor has the ability to discuss, but can not directly affect the asking prices. The counterparty's interests are aligned with the company, to achieve the best possible price.

Credit – The risk that proceeds from property sales are not passed on to the company. As well as the contractual rights afforded to the company to enforce payment, the proceeds from sales are initially in a segregated account of the counterparty. Additionally, the counterparty to the contract is part of the Swiss Re group rated as AA3 by Moody's.

Liquidity / cashflow – Prior to any distribution, a liquidity assessment is undertaken to ensure that cash equivalent to at least 12 months forecast costs is retained within the company bank account.

On behalf of the board

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Director

Date: 12/7/19

P1 REVERSIONS LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 31 MARCH 2019

The directors are responsible for preparing the Strategic Report and 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 these financial statements, the directors are required to:

- select suitable accounting policies and then 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;
- 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF P1 REVERSIONS LIMITED

Opinion

We have audited the financial statements of P1 Reversions Limited (the 'company') for the year ended 31 March 2019 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Equity and the related notes 1 to 23, 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 including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 March 2019 and of its loss 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. 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 as applied to listed entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

Key audit matters	• Risk of misstatement of the fair value of investments of £99.9m, as a result of the use of inappropriate estimates or methodology in the valuation model.
	• Risk of misstatement of revenue due to cut off errors
Materiality	• Overall materiality of £1.0m which represents 1% of total assets.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to those charged with governance
Risk of misstatement of the fair value of investments of £99.9m (2017: £115.8m) as a result of the use inappropriate estimates in the valuation model *Refer to the Accounting policies (page 14); and Note 11 of the Financial Statements (page 20)* The company holds a financial asset investment that gives it the right to a proportion of the proceeds from future disposals of residential properties throughout the UK. The valuation of this investment at 31 March 2019 requires significant estimates by management, in particular: • The valuation of the properties at 31 March 2019 • Future house price inflation • The life span of the current owners • The market required return for such an investment. Other inputs into the model included those to reflect the contractual terms of the investment, the age of the tenant and the property details. Due to the subjectivity of these estimates and potential management bias we considered this account to be a significant risk of material misstatement.	• We obtained an understanding of management's process in estimating the valuation. • We evaluated the methodology in the model used in the valuation against market practice. • We checked a sample of the property values at 31 March 2019 to prices of similar properties on house market websites. • We compared assumptions about life span to published actuarial tables. • We compared the proceeds from the sale of properties subsequent the year to 31 March 2019 to the valuations in order to obtain evidence on the validity of the valuations of those properties in the model. • We checked the model reflected the contractual terms of the investment on a sample basis, in particular the amounts due to the company from the realisation of the property values. • We checked on a sample basis that other inputs into the model, such as tenant age and property details, were correct.	We concluded that management's valuation model was appropriate, that the estimates used in the model were reasonable and the other inputs reflected the contractual arrangements. Consequently we concluded the fair value of financial asset investment is reasonably stated.
Risk of misstatement of revenue due to cut off errors The company recognises revenue when the underlying property is sold and their share is due to them. In order to recognise revenue correctly, the company must accurately know the date of disposal of the underlying property that is administered by a third party.	• We obtained an understanding of management's process in recognising revenue. • We evaluated whether the policy is appropriate. • We checked, on a sample basis, revenue received before and after the year end to check it was recognised in the correct period.	We concluded that revenue is correctly stated.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the company to be £1.0 million, which is 1% of total assets. We believe that total assets provides the best basis for determining materiality as the company is primarily investment focused.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the company's overall control environment, our judgement was that performance materiality was 75% of our planning materiality, namely £1.0m. We have set performance materiality at this percentage due to low risk nature of the company's business.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with those charged with Governance that we would report to them all uncorrected audit differences in excess of £52,000, which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages 1 to 5, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and 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 material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which 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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on pages 3 to 5, 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 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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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.

Nick Gomer (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
9 July, 2019

P1 REVERSIONS LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2019

	Notes	2019 £'000	2018 £'000
Turnover		18,506	21,897
Cost of sales		(16,581)	(21,354)
Gross profit		1,925	543
Administrative expenses		(847)	(382)
Revaluation of reversion rights		699	(1,099)
Exceptional items	3	-	(531)
Operating profit/(loss)	6	1,777	(1,469)
Interest receivable and similar income	7	30	3
Interest payable and similar expenses	8	(4,648)	(8,447)
Hedge of variable interest rate risk, fair value gains/(losses) on ineffective hedge		-	774
Other gains and losses	9	-	(739)
Loss before taxation		(2,841)	(9,878)
Tax on loss	10	-	593
Loss for the financial year		(2,841)	(9,285)
Other comprehensive income / (loss) net of taxation			
Hedge of variable interest rate risk, fair value gain/(losses):			
- on effective hedge		-	3,119
- reclassified to profit or loss		-	739
Tax relating to other comprehensive income		-	(593)
Other comprehensive income for the financial year		-	3,265
Total comprehensive loss for the year		(2,841)	(6,020)

P1 REVERSIONS LIMITED

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2019

	Notes	2019 £'000	2019 £'000	2018 £'000	2018 £'000
Fixed assets					
Investments	11		99,880		115,762
Current assets					
Debtors	12	1,199		2,357	
Cash at bank and in hand		2,845		6,245	
		4,044		8,602	
Creditors: amounts falling due within one year	13	(886)		(1,843)	
Net current assets			3,158		6,759
Total assets less current liabilities			103,038		122,521
Creditors: amounts falling due after more than one year	14		(104,898)		(121,540)
Net assets/(liabilities)		(1,860)			981
Capital and reserves					
Called up share capital	17	23,472			23,472
Profit and loss reserves	18	(25,332)			(22,491)
Total equity/(deficit)		(1,860)			981

The financial statements were approved by the board of directors and authorised for issue on..............................and are signed on its behalf by:

....
Director

P1 REVERSIONS LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2019

	Notes	Called up share capital £'000	Hedging reserve £'000	Profit and loss reserves £'000	Total £'000
Balance at 1 April 2017		-	(3,265)	(13,206)	(16,471)
Year ended 31 March 2018:					
Loss for the year		-	-	(9,285)	(9,285)
Other comprehensive income / (loss) net of taxation:					
Hedge of variable interest rate risk, fair value gain/(losses):					
- on effective hedge		-	3,119	-	3,119
- reclassified to profit or loss		-	739	-	739
Tax relating to other comprehensive income		-	(593)	-	(593)
Total comprehensive income/(loss) for the year		-	3,265	(9,285)	(6,020)
Conversion of loan to shares		23,472	-	-	23,472
Balance at 31 March 2018		23,472	-	(22,491)	981
Year ended 31 March 2019:					
Loss for the year		-	-	(2,841)	(2,841)
Total comprehensive loss for the year		-	-	(2,841)	(2,841)
Balance at 31 March 2019		23,472	-	(25,332)	(1,860)

P1 REVERSIONS LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2019

	Notes	2019 £'000	2019 £'000	2018 £'000	2018 £'000
Cash flows from operating activities					
Cash generated from operations	19		18,883		23,591
Investing activities					
Interest received		30		3	
Net cash generated from investing activities			30		3
Financing activities					
Repayment of amounts due to parent undertaking		-		(687)	
Repayment of secured bank loans		(16,642)		(14,108)	
Interest paid		(5,671)		(7,364)	
Net cash used in financing activities			(22,313)		(22,159)
Net increase/(decrease) in cash and cash equivalents			(3,400)		1,435
Cash and cash equivalents at beginning of year			6,245		4,810
Cash and cash equivalents at end of year			2,845		6,245

1 Accounting policies

Company information

P1 Reversions Limited is a private company limited by shares and is registered and incorporated in England and Wales. The registered office is C/O DMS Governance (UK) Limited, Suite 402, 52 Brook Street, London, W1K 5DS.

The company's principal activities and nature of its operations are disclosed in the Directors' Report.

Accounting convention

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.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £'000

These financial statements have been prepared under the historical cost convention, modified to include the revaluation of property reversion rights at fair value. The principal accounting policies adopted are set out below.

Going concern

The directors have prepared cash flow forecasts for 12 months from the date of approval of these financial statements that indicate that liabilities will be settled as they fall due. Consequently, at the time of approving the financial statements, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus the directors continue to adopt the going concern basis of accounting in preparing the financial statements.

During the year the company generated a loss of £2.8m (2018 – £9.3m). As at 31 March 2019, the company has a net liability position of £1.9m (2018 – Net assets position of £1m). The company has a liability of £105m with respect to the loan note issued to its shareholder. The loan note carries a fixed interest rate of 4.04%, is unsecured and matures on 22 November 2032. The company continues to hold income generating assets which it believes will generate surpluses in future periods.

Turnover

Turnover represents the company share of proceeds arising from the reversion of the property. It is recognised upon the sale of the underlying property. Proceeds from such sales that is yet to be received by the company is included within accrued income.

Cost of sales

Cost of sales is determined as the fair value at which the companies' right to the investment property proceeds is recognised in fixed assets investments as at the date a property is sold, and the company receives the right to the sales proceeds under the contract.

Fixed assets investments

Property reversion rights are initially measured at transaction price excluding transaction costs, and are subsequently measured at fair value at each reporting date. Changes in fair value are recognised in profit or loss.

Cash and cash equivalents

Cash and cash equivalents are basic financial instruments and include cash in hand and deposits held at call with banks.

1 **Accounting policies (Continued)**

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 to all of its financial instruments.

Financial instruments are recognised when the company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Basic financial assets

Basic financial assets, which include trade and other debtors and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the financial asset is measured at the present value of the future receipts discounted at a market rate of interest.

Other financial assets

Other financial assets, including trade investments, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment.

Basic financial liabilities

Basic financial liabilities, including trade and other creditors, bank loans and loans from fellow group companies are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest. Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Other financial liabilities

Derivatives, including interest rate swaps, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value.

Derecognition of financial liabilities

Financial liabilities are derecognised when, and only when, the company's contractual obligations are discharged, cancelled, or they expire.

Equity instruments

Equity instruments issued by the company are recorded at the fair value of proceeds received, net of direct issue costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the company.

1 Accounting policies (Continued)

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 and deferred tax is charged or credited to 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 the net basis or to realise the asset and settle the liability simultaneously.

Current tax is based on taxable profit for the year. Current tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted by the reporting period.

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.

2 Judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, the directors are required to make judgements and estimates about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Critical judgements

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

Deferred tax assets

Deferred tax assets are recognised in respect of the company's tax losses to the extent that they are expected to be utilised in settlement of deferred tax liabilities on the company's fixed asset investments, which arise on the cumulative gain in the fair value of the fixed asset investments at each balance sheet date.

Key sources of estimation uncertainty

The estimates which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are as follows:

Fixed asset investments

Reversion right valuations are assessed by the directors at each reporting date on an investment appraisal basis through a discounted cash flow model. The basis of that valuation is summarised in the fixed asset investments note (note 11).

3 Exceptional items

In the prior year the company was party to an introductory and Consultancy Service Agreement (the "ICS Agreement") under which it had an obligation to pay, as consideration for introductory services, 1% of the amounts received by the company under the contract.

	2019	2018
	£'000	£'000
Termination - ICS agreement	-	531
	-	531

4 Employees

The average monthly number of persons (including directors) engaged by the company on a contract for services basis during the year was:

	2019	2018
	Number	Number
Directors	1	1

Their aggregate remuneration comprised:

	2019	2018
	£'000	£'000
Wages and salaries	18	6

5 Directors' remuneration

	2019	2018
	£'000	£'000
Remuneration for qualifying services	18	6

6 Operating (loss)/profit

Operating (loss)/profit for the year is stated after charging:	2019 £'000	2018 £'000
Fees payable to the company's auditor for the audit of the company's financial statements	54	36

7 Interest receivable and similar income

	2019 £'000	2018 £'000
Interest income		
Interest on bank deposits	30	3

Investment income includes the following:

Interest on financial assets not measured at fair value through profit or loss	30	3

8 Interest payable and similar expenses

	2019 £'000	2018 £'000
Interest on financial liabilities measured at amortised cost:		
Interest on secured bank loans	-	5,629
Interest payable on unsecured loan notes	4,648	1,735
	4,648	7,364
Other finance costs:		
Unwinding of discount on amounts due to parent undertaking	-	1,083
	4,648	8,447

9 Other gains and losses

	2019 £'000	2018 £'000
Fair value gains/(losses) on financial instruments		
Hedge of variable interest rate risk, fair value gains/(losses) reclassified to profit or loss	-	(739)

10 Taxation

Current Tax	2019 £'000	2018 £'000
Current tax charge	78	-
Net Deferred tax charge / (reversal)	(78)	(593)
Total tax charge / (reversal)	-	(593)

On 1 April 2018 the main rate of UK Corporation Tax remained at 19%.

Changes to the UK Corporation tax rates were enacted on 18 November 2016. These include further reductions to the main rate to 17% from 1 April 2020. These further changes have been substantively enacted at the balance sheet date and, therefore are included in the financial statements.

The total tax credit for the year included in the income statement can be reconciled to the loss before tax multiplied by the standard rate of tax as follows:

	2019 £'000	2018 £'000
Loss before taxation	(2,841)	(9,878)
Tax rate	19%	19%
Expected tax credit	(540)	(1,877)
Reversal of tax losses	803	909
Tax losses reclaimed	(78)	-
Unrealised revaluations not taxable	385	1,116
Indexation on capital disposals	(570)	(700)
Other tax adjustments	-	(41)
Taxation credit for the year	-	(593)

Amounts recognized in other comprehensive income

Relating to cash flow hedges	-	593
Charge to other comprehensive income	-	593

The company has unprovided tax losses available to offset against future trading profits amounting to £55.9 million (2018: £63.4 million) which equates to an unprovided deferred tax asset of £9.5 million (2018: £10.8 million) using a tax rate of 17% (2018 -17%) being the rate substantively enacted at the balance sheet date the asset is expected to be recognised.

11 Fixed asset investments

Movements in fixed asset investments

	Property reversion rights £'000
Fair value	
At 1 April 2018	115,762
Valuation changes	699
Disposals	(16,581)
At 31 March 2019	99,880
Carrying amount	
At 31 March 2019	99,880
At 31 March 2018	115,762

The company has a right to a share in the proceeds from the future disposals of properties owned by third parties located throughout the UK.

At 31 March 2019, 786 (2018: 918) reversions remained with the portfolio representing a fair value of £99.9 million (2018: £115.8 million).

The valuation of the portfolio is estimated by the directors with the assistance of the Investment Advisor. It is derived from the current vacant possession value ("VPV") of each property in the portfolio adjusted for expected house price inflation and then discounted from an expected reversion date that is estimated using actuarial assumptions (average life expectancy) about the owners.

Finally, the VPV is adjusted by the percentage share of the property retained by the tenant and the relevant percentage share of sale proceeds that would be received by the company in the year that the property is considered likely to revert.

VPV is based on valuations provided by an external specialist Hometrack or agreed offer prices as applicable.

House price inflation is estimated using 5-year regional HPI assumptions published by Savills Plc, to the expected time of reversion. The average annual UK house price inflation used in 2019 was 1.9% (2018: 0.27%).

The other key assumptions underlying the valuation are as follows:

- Discount rate of 6.62% (2018: 6.62%)
- Average life expectancy of 4.7 years (2018: 5.1 years)

12 Debtors

	2019	2018
	£'000	£'000
Amounts falling due within one year:		
Accrued income	1,199	2,357

13 Creditors: amounts falling due within one year

	2019	2018
	£'000	£'000
Other creditors	-	11
Accruals and deferred income	886	1,832
	886	1,843

14 Creditors: amounts falling due after more than one year

		2019	2018
	Notes	£'000	£'000
Unsecured loan notes	15	104,898	121,540

On 22 November 2017, the company issued an unsecured loan note to its new shareholder of nominal amount £121,539,648 with a fixed rate of interest of 4.04% and a maturity date of 22 November 2032. This loan note was subsequently listed on the CSX on 23 March 2018.

The company repaid £16,641,687 of principal during the year resulting in the loan note balance reducing to £104,897,961 as at 31 March 2019.

The company also paid £5,671,155 of interest on the loan note during the year. As at 31 March 2019 £711,887 of accrued interest remained unpaid.

Amounts included above which fall due after five years are as follows:

Payable other than by instalments	104,898	121,540

15 Financial instruments

	2019 £'000	2018 £'000
Carrying amount of financial assets		
Instruments measured at fair value through profit or loss	99,880	115,762
Carrying amount of financial liabilities		
Loan commitments measured at cost less impairment	105,610	123,275

For information on the fair value of financial assets please see note 11.

The fair value of the loan notes is considered equal to the carrying value of £105,609,848 at 31 March 2019 as interest rate on the loan notes is still considered to be at market rates.

16 Deferred taxation

The major deferred tax liabilities and assets recognised by the company are:

	2019 £'000	2018 £'000
Tax losses	(5,192)	(5,995)
Revaluations of investments	5,192	5,995
	-	-
Unprovided deferred tax	55,861	63,406
Tax rate	17%	17%
Deferred tax asset	9,496	10,779

As the future deferred tax balances, if any, will be dependant on future changes in the fair value of assets and liabilities, it is not possible to estimate any future reversals of existing deferred tax balances.

17 Share capital

	2019	2018
	£'000	£'000
Ordinary share capital		
Issued and fully paid	23,472	23,472
23,472,400 ordinary shares of £1 each	23,472	23,472

The company has one class of ordinary share capital. Each share entitles the owner to one vote at general meetings of the company but does not carry the right to a fixed income. Upon a winding up of the company ordinary shareholders rank below unsecured creditors.

18 Reserves

Profit and loss reserves

Retained earnings represent the accumulated eamings of the company net of any distributions to owners.

19 Cash generated from operations

	2019	2018
	£'000	£'000
Loss for the year after tax	(2,841)	(9,285)
Adjustments for:		
Taxation credited	-	(593)
Finance costs	4,648	8,447
Investment income	(30)	(3)
Other gains and losses	-	739
Increase/(decrease) in provisions	-	461
Fair value movements on ineffective hedges	-	(774)
Revaluations to investment portfolio	(699)	1,099
Fair value of investment disposals included within cost of sales	16,581	21,255
Movements in working capital:		
Decrease in debtors	1,158	1,658
Increase in creditors	66	587
Cash generated from operations	18,883	23,591

20 Analysis of changes in net debt

	At 1 April 2018 £'000	Cash flows £'000	At 31 March 2019 £'000
Cash	6,245	(3,400)	2,845
Borrowings:			
- Loan notes	(121,540)	16,642	(104,898)
	(115,295)	13,242	(102,053)

21 Events after the reporting date

The company paid £711,887 of accrued interest on the unsecured loan note on 17th April 2019.

22 Related party transactions

Remuneration of key management personnel

The remuneration of key management personnel, who are also directors, is as follows.

	2019 £'000	2018 £'000
Aggregate compensation	18	6

Transaction with XYQ Cayman Ltd – parent from 22 November 2017

At 31 March 2019, the company owes XYQ Cayman Limited £104.9 million (2018 £121.5 million) in the form of an unsecured loan note issued on 22 November 2017 (note 14). The interest on this loan accrued at year end is £0.7 million which remains unpaid at 31 March 2019 (2018: £1.7 million), which is included in accruals.

23 Controlling party

The ordinary shares issued by the company are legally owned by XYQ Cayman Ltd., a Cayman Islands exempted company, which is beneficially owned by XUS, LLC ("XUS"). XUS is beneficially owned by FFI Fund Ltd. ("FFI"), a Cayman Islands exempted company.

The ultimate parent undertaking of FFI is BIL, Ltd. ("BIL"), a Cayman Islands exempted company. At 31 March 2019, Don Seymour and Lori Webb-Griffith serve as independent directors of both BIL and FFI.

Neither the immediate nor any more senior parent prepares consolidated accounts which contain this entity and are publicly available.