

Knight Dragon Investments Limited

Annual reports and financial statements

**Registered number 6231628
For the year ended 31 March 2018**

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Directors' report and financial statements

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Group Strategic Report

Business review

In September 2015 the Group received planning consent for a revised masterplan planning application covering areas of the Peninsula for which detailed planning consent had not already been granted. As a result the overall area consented for development increased from 14 million sq ft to 17 million sq ft. The consented number of residential units within this area increased from 10,010 to 15,720.

Under principal agreements with the Greater London Authority (GLA), a Group subsidiary company, Knight Dragon Developments Limited (KDDL), has been granted land management rights to 147 acres of Greenwich Peninsula (excluding The O₂ and surrounding areas). KDDL's principal role is as master planner for the site. It is also obliged under the various agreements to design, programme and deliver the requisite infrastructure services for the effective and efficient delivery of development projects. It is able to manage this infrastructure investment by drawing down plots for direct development or sale to coincide with demand.

During the year to 31 March 2018, the Group's investment entities were involved in the following activities:

- KDDL continued in its role as master developer of Greenwich Peninsula. KDDL's main roles in the year have been master planning, design development, seeking and obtaining planning permissions, marketing for sale certain development plots within the site and the design and construction of site infrastructure.
- Knight Dragon N0206 Limited was granted long leases for the three N0206 building plots B3, B4 & B5 Upper Riverside. These comprise 478 private & 65 affordable residential units and three commercial units. Construction of these buildings is well advanced and they are on target for delivery by early 2020.
- Knight Dragon (N0205) Limited continued the development of the first two plots (B1 & B2) of Upper Riverside. These comprise 324 private & 65 affordable residential units and six commercial units. Construction remains on course for completion by the end of 2018.
- KDDL was granted a long lease and completed the development of plot M0119 to create the Aperture, a building serving the residential units in Lower Riverside. The Aperture comprises a service charge gym, a crèche, a multi-faith centre, meeting rooms, a management office and two small commercial units.
- Planning permission was granted for the Design District, a new creative destination comprising 16 buildings by eight separate architectural practices. Development commenced shortly after the year-end with completion planned for early 2020.

As the Group's principal activities are the development and sale of property, primarily residential accommodation, its future trading performance is largely dependent on the London residential property market. Since the EU Referendum in June 2016 and the subsequent General Election, there has been some uncertainty in the market and demand, whilst steady, has slowed a little. However, the fundamental imbalance of supply and demand remains and, as it is involved in a long-term regeneration project, the Group continues to take a confident long-term view of the London market and currently does not envisage any material changes to its development strategy.

The Group's future profitability is also partly dependent on property construction and development costs. These costs are subject to fluctuations in the commodity and labour markets and in interest and inflation rates.

In the opinion of the directors, the Group remains well-positioned to generate satisfactory profits from its business activities.

During the year, the Group had a loss of £2,384,510 (2017: profit of £2,327,093). Net assets of the Group at 31 March 2018 were £60,820,449 (2017: £63,204,959).

Risks and uncertainties

The financial risk management objectives and policies of the Company, together with an analysis of the exposure to such risks, as required under the Companies Act are set out in note 18 of the notes to the financial statements.

Significant judgements, estimates and assumptions made by the Board are also disclosed in note 1 of the financial statements.

Group Strategic Report *(continued)*

Environment

The Company recognises the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to reduce any damage that might be caused by the Company's activities. Initiatives designed to minimise the Company's impact on the environment include the safe disposal of construction waste and recycling.

By order of the board



S Lee
Director

Level 9, 6 Mitre Passage
Greenwich Peninsula
London, SE10 0ER
23 August 2018

Directors' report

The directors present the directors' report and financial statements for the year ended 31 March 2018.

Principal activities

Knight Dragon Investments Limited (the "Company") is a limited company incorporated and domiciled in the United Kingdom. The address of its registered office is Level 9, 6 Mitre Passage, Greenwich Peninsula, London, SE10 0ER. The consolidated financial statements comprise the Company and its subsidiaries (collectively the "Group" and individually "Group companies".)

Its principal activity is the investment in property development entities.

Proposed dividend

The directors do not recommend the payment of a dividend (2017: £nil).

Basis of preparation

The directors believe that it remains appropriate to prepare the financial statements on a going concern basis for the reasons set out in note 1 in the accounting policies.

Directors and directors' interests

The directors who held office during the year were as follows:

D Heininger
S Lee
P Voit
J Rann
R Margree
P Elliott
P Tsang

None of the directors who held office at the end of the financial year had any disclosable interest in group undertakings as recorded in the register of directors' interests. No other directors served during the year.

Employees

Neither the Company nor any of its subsidiaries, with the exception of Knight Dragon Developments Limited ("KDDL"), employed any staff including directors during the year. At 31 March 2018 KDDL had 71 employees (2017: 69).

Political and charitable contributions

The Group made charitable contributions during the year of £2,100 (2017: £6,000).

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware and each director has taken all the steps that they ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

Pursuant to Section 487 of the Companies Act 2006, KPMG LLP has been reappointed as the auditor.

Directors' report (*continued*)

Statement of directors' responsibilities

The directors are responsible for preparing the Group Strategic Report, the Directors' Report and the Group and Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they have elected to prepare the group and parent financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU") 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 Group and Company and of their profit or loss for that period.

In preparing each of the Group and Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- assess the group and parent 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 Group or 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 its 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 Group and to prevent and detect fraud and other irregularities.

By order of the Board



R Margree
Director

Level 9, 6 Mitre Passage
Greenwich Peninsula
London, SE10 0ER

23 August 2018

Independent auditor's report to the members of Knight Dragon Investments Limited

We have audited the financial statements of Knight Dragon Investments Limited ("the Company") for the year ended 31 March 2018 which comprise the consolidated statement of comprehensive income, the Group and Company statements of financial position, the Group and Company statements of changes in equity, the Group and Company statements of cash flows, and related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2018 and of the group's loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- the financial statements 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 group 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.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Strategic report and director's report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and 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 strategic report and 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.

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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.

We have nothing to report in these aspects.

Independent auditor's report to the members of Knight Dragon Investments Limited *(continued)*

Respective responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement set out on pages 1-4, 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 group and parent 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 group or the parent 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.

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.



Henry Todd (Senior Statutory Auditor)
for and on behalf of KPMG LLP

Chartered Accountants

15 Canada Square, London, E14 5GL

~~20~~ August 2018

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Consolidated Statement of Comprehensive Income
for the year ended 31 March 2018

	Notes	2018 £	2017 £
Revenue		167,456,713	104,399,938
Cost of sales		(156,211,331)	(95,977,398)
Gross profit		11,245,382	8,422,540
Other income		1,245,764	70,844
Selling expenses		(4,244,145)	(3,123,759)
Administrative expenses	3	(3,042,724)	(2,040,805)
Operating profit before tax		5,204,277	3,328,820
Net finance costs	4	(2,930,364)	(131,856)
Depreciation		(1,365,978)	(434,136)
Profit before tax		907,935	2,762,828
Taxation	5	(3,292,445)	(435,735)
Total comprehensive (loss)/profit for the year		(2,384,510)	2,327,093

The amounts reported in the Consolidated Statement of Comprehensive Income relate to continuing operations.

Notes on pages 12 to 33 form part of the financial statements

Statement of Financial Position
at 31 March 2018

	Notes	Group 2018 £	Group 2017 £	Company 2018 £	Company 2017 £
Non-current assets					
Investment property	6	8,987,317	8,987,317	-	-
Investments	6	-	-	27,567,533	23,570,823
Property, plant and equipment	7	40,845,413	35,542,654	-	-
Amounts due from related entities	8	-	-	504,500,667	491,530,418
Deferred tax assets	9	1,563,067	2,881,684	-	-
Total non-current assets		51,395,797	47,411,655	532,068,200	515,101,241
Current assets					
Inventories	10	737,504,841	606,551,351	-	-
Trade and other receivables	11	30,743,032	34,061,551	19,121,725	5,488,635
Cash	12	76,718,016	13,911,768	69,813,181	10,467,395
Total current assets		844,965,889	654,524,670	88,934,906	15,956,030
Total assets		896,361,686	701,936,325	621,003,106	531,057,271
Current liabilities					
Trade and other payables	13	(14,475,969)	(32,674,771)	(82,288)	(5,527,715)
Deferred income	14	(8,744,223)	(8,692,211)	-	-
Provisions	15	(5,227,903)	(2,241,091)	-	-
Other interest-bearing loans and borrowings	16	(107,032,635)	-	-	-
Total current liabilities		(135,480,730)	(43,608,073)	(82,288)	(5,527,715)
Non-current liabilities					
Deferred income	14	(6,685,000)	(6,825,000)	-	-
Other interest-bearing loans and borrowings	16	(693,375,507)	(588,298,293)	(533,956,187)	(449,660,579)
Total non-current liabilities		(700,060,507)	(595,123,293)	(533,956,187)	(449,660,579)
Total liabilities		(835,541,237)	(638,731,366)	(534,038,475)	(455,188,294)
Net assets		60,820,449	63,204,959	86,964,631	75,868,977
Equity attributable to equity holders of the parent					
Ordinary shares	17	4,218	4,218	4,218	4,218
Share premium		73,084,597	73,084,597	73,556,196	73,556,196
Retained earnings		(12,268,366)	(9,883,856)	13,404,217	2,308,563
Total equity		60,820,449	63,204,959	86,964,631	75,868,977

These financial statements were approved by the board of directors on 23 August 2018 and were signed on its behalf by:



J Rann

Director

Registered number 6231628

Notes on pages 12 to 33 form part of the financial statements

Statement of Changes in Equity for the year ended 31 March 2018

Group

	Share capital £	Share premium £	Retained earnings £	Total equity £
Balance at 1 April 2016	4,218	73,084,597	(12,210,949)	60,877,866
Total comprehensive income for the year				
Profit for the year	-	-	2,327,093	2,327,093
Balance at 31 March 2017	4,218	73,084,597	(9,883,856)	63,204,959
Balance at 1 April 2017	4,218	73,084,597	(9,883,856)	63,204,959
Total comprehensive income for the year				
Loss for the year	-	-	(2,384,510)	(2,384,510)
Balance at 31 March 2018	4,218	73,084,597	(12,268,366)	60,820,449

Company

	Share Capital £	Share Premium £	Retained Earnings £	Total Equity £
Balance at 1 April 2016	4,218	73,556,196	414,824	73,975,238
Total comprehensive income for the year				
Profit for the year	-	-	1,893,739	1,893,739
Balance at 31 March 2017	4,218	73,556,196	2,308,563	75,868,977
Balance at 1 April 2017	4,218	73,556,196	2,308,563	75,868,977
Total comprehensive income for the year				
Profit for the year	-	-	11,095,654	11,095,654
Balance at 31 March 2018	4,218	73,556,196	13,404,217	86,964,631

Notes on pages 12 to 33 form part of the financial statements

Statement of Cash Flows
for the year ended 31 March 2018

	Group 2018 £	Group 2017 £	Company 2018 £	Company 2017 £
Cash flows from operating activities				
(Loss)/profit for the year	(2,384,510)	2,327,093	11,095,654	1,893,739
<i>Adjustments for:</i>				
Net finance costs / (income)	2,930,364	131,856	(5,817,283)	(2,016,356)
Taxation	3,292,445	435,735	-	90,163
Depreciation	1,365,978	434,136	-	-
	<u>5,204,277</u>	<u>3,328,820</u>	<u>5,278,371</u>	<u>(32,454)</u>
Decrease/(increase) in trade and other receivables	3,318,519	(17,257,939)	(13,633,090)	(4,303,346)
Increase in inventories	(130,953,490)	(139,180,726)	-	-
(Decrease)/increase in trade and other payables, deferred income and provisions	(17,273,807)	11,386,469	(5,445,427)	119,810
Net cash used in operating activities	<u>(139,704,501)</u>	<u>(141,723,376)</u>	<u>(13,800,146)</u>	<u>(4,281,518)</u>
Cash flows from investing activities				
Interest received	23,460,322	15,604,725	5,817,283	13,356,235
Interest paid	(24,183,512)	(15,736,581)	-	(11,339,879)
Finance expense	(2,207,174)	-	-	-
Loans to subsidiaries	-	-	(12,970,249)	(59,442,931)
Investment property acquired	-	(8,987,317)	-	(4)
Investment in subsidiaries	-	-	(3,996,710)	-
Capital expenditure	(6,668,736)	(17,276,469)	-	-
Net cash used in investing activities	<u>(9,599,100)</u>	<u>(26,395,642)</u>	<u>(11,149,676)</u>	<u>(57,426,579)</u>
Cash flows from financing activities				
Proceeds from shareholder loans	478,996,075	168,248,028	87,546,999	46,067,945
Repayment of shareholder loans	(394,688,468)	(122,192,199)	(3,251,391)	-
Proceeds from third party loans	184,409,242	110,415,606	-	-
Repayment of third party loans	(56,607,000)	(3,990,159)	-	-
Net cash from financing activities	<u>212,109,849</u>	<u>152,481,276</u>	<u>84,295,608</u>	<u>46,067,945</u>
Net increase/(decrease) in cash and cash equivalents	62,806,248	(15,637,742)	59,345,786	(15,640,152)
Cash and cash equivalents at 1 April	13,911,768	29,549,510	10,467,395	26,107,547
Cash at bank at 31 March	<u>76,718,016</u>	<u>13,911,768</u>	<u>69,813,181</u>	<u>10,467,395</u>

Statement of Cash Flows (continued)
for the year ended 31 March 2018

Reconciliation of liabilities arising from financing activities

	Group 2017 £	Cash Flows £	Non-cash changes £	Group 2018 £
Shareholder loans	449,650,420	84,307,607	-	533,958,027
Third party loans	138,647,873	127,802,242	-	266,450,115
	<u>588,298,293</u>	<u>212,109,849</u>	<u>-</u>	<u>800,408,142</u>

Notes on pages 12 to 33 form part of the financial statements

Notes to the financial statements

1. Accounting policies

Knight Dragon Investments Limited (the "Company") is a company incorporated and domiciled in the United Kingdom.

The group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group"). The parent company financial statements present information about the Company as a separate entity and not about its group.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group and Company's financial statements.

Basis of preparation

The Group and Company financial statements have been prepared and approved by the directors in accordance with IFRSs as adopted by the EU ("Adopted IFRSs") and are prepared on the historical cost basis.

Measurement convention

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

Going concern

The financial statements have been prepared on the going concern basis which the directors believe to be appropriate for the following reasons. The Company is dependent for its working capital on funds provided by its parent company Knight Dragon Limited. Knight Dragon Limited is obliged to provide necessary funding for the continuing operations of the Company. This should enable the Company to continue in operational existence for the foreseeable future by meeting its liabilities when they fall due for payment. This includes the repayment of £107,032,635 of external loans in the next twelve months. As with any company placing reliance on other entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of the approval of these financial statements, they have no reason to believe that it will not do so.

Based on this undertaking the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments that would result in the basis of preparation being inappropriate.

Significant judgements, estimates and assumptions

The preparation of financial statements under IFRSs requires the Board 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 expense during the reporting year. 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 judgements that are not readily apparent from other sources. However, the actual results may differ from these estimates.

The valuation of inventory constitutes the main area of judgement exercised by the Board in respect of the results. Inventory is stated at the lower of cost and net realisable value. In relation to the net realisable value, the Board has relied upon a financial model to appraise the project. The key assumptions relate to the timing of future income streams, anticipated development costs, residential values, price and cost inflation, the market absorption rate and the discount rate. The financial statements are prepared on the historical cost basis.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Revenue and profit are recognised as and when services and obligations are fulfilled, when it is probable that the future economic benefits will flow to the entity and these benefits can be measured reliably.

Notes to the financial statements (*continued*)

1. Accounting policies (*continued*)

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Revenue

Revenue is made of three significant parts, described below. Revenue is recognised as and when services and obligations are fulfilled, when it is probable that the future economic benefits will flow to the entity and these benefits can be measured reliably.

Revenue from the sale of land options

Revenue from the sale of land options is recognised in the consolidated statement of comprehensive income when the significant risks and rewards of ownership, the continual managerial involvement and control have been transferred to the buyer. Where cash has been received in advance of obligations being fulfilled by the Group, these amounts have been presented as deferred income in the statement of financial position. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due and associated costs.

Revenue from the provision of management services

Revenue contains amounts, net of value added tax, of management fees in respect of estate management services provided to customers. It is recognised as the services are performed.

Revenue from the sale of residential units

Revenue from the sale of residential units is recognised at completion of the sale.

Cost of sales

Cost of sales are costs related to services rendered during the reporting period and are expensed as incurred.

Expenses

Financing income and expenses

Financing expenses comprise interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset. Financing income comprises interest receivable on funds invested and dividend income.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the consolidated statement of comprehensive income on the date the entity's right to receive payments is established.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition or construction of a qualifying asset are capitalised as part of the cost of that asset. Such borrowing costs are capitalised as part of the cost of the asset when it is probable that they will result in future economic benefits and the costs can be measured reliably. Other borrowing costs are recognised as an expense in the period in which they are incurred. Borrowing costs are capitalised into inventories, inventories being a qualifying asset as there is a long period before the asset is available for sale.

Notes to the financial statements (*continued*)

1. Accounting policies (*continued*)

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the enterprise that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

Taxation

Tax on the profit for the year comprises current and deferred tax. Tax is recognised in the consolidated statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the date of statement of financial position, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the date of statement of financial position.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Business combinations

The Group accounts for acquisition of inventories-owning vehicles as asset purchases, rather than business combinations under IFRS 3. Should the Group acquire a business which would include personnel making strategic decisions in respect of the acquiree's inventories, then IFRS 3 would be applied.

Investment property

Investment property is initially measured at cost, including transaction costs. After initial recognition, investment property will be re-measured at fair value, which is the amount for which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction. Gains or losses arising from changes in the fair value of investment property will be included in net profit or loss for the period in which it arises.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation methods, useful lives and residual values are reviewed at each date of statement of financial position.

Taking the above into account and their own assessment of the carrying value of work in progress, the directors believe property, plant and equipment to be correctly valued at the lower of cost and net realisable value.

Depreciation is charged to the consolidated statement of comprehensive income once those assets are completed. Assets completed during the year include temporary energy centres, the main energy centre, heat network and heat interface units ("HIUs"). In addition, furniture and fittings and IT assets have been acquired during the year. The remaining property, plant and equipment balance is made up of assets under construction and is therefore not yet depreciated.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the expenditure incurred in acquiring the inventories, production or conversion costs and other costs in bringing them to their existing location and condition.

Notes to the financial statements *(continued)*

1. Accounting policies *(continued)*

Inventories *(continued)*

Inventory includes capitalised interest costs. Interest is capitalised in the development plots at 3 month London Interbank Offered Rate ("Libor") + 5% per annum and in Knight Dragon Developments Limited ("KDDL") at 3 month Libor + 2% per annum. These interest costs are directly attributable to the development assets which are considered qualifying assets under IAS 23, 'Interest costs'.

The recoverable amount of each plot is assessed in each financial year and a provision for diminution in value is made by the Board where cost (including costs to complete) exceeds net realisable value. In determining the recoverable amount, the Board has regard to independent market conditions affecting each plot and the underlying strategy for sale.

Inventories include costs incurred by the Group (including capitalised interest) associated with land sold to third parties. It is held as work in progress until all obligations have been substantively fulfilled by the Group at which point they will be transferred to the consolidated statement of comprehensive income.

Total costs allocated to each site will include those directly attributable to that site as well as costs associated with the entire Greenwich Peninsula (including estimates of future outlays), allocated on a square foot basis.

There is significant judgement involved in the valuation of work in progress, classified under inventories. The directors have implemented the advice of relevant external professional firms in determining the assumptions used for the current sales values and build costs and future sales and cost inflation. The assessment of the valuation is very sensitive to these assumptions.

Trade and other receivables

Trade and other receivables are recognised initially at fair value, and are subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. Appropriate estimates for estimated irrecoverable amounts are recognised in the consolidated statement of comprehensive income when there is objective evidence that the asset is impaired.

Trade and other payables

Trade and other payables are initially measured at fair value and subsequently measured at amortised cost.

Deferred income

Deferred income includes a government grant and cash received in advance of obligations fulfilled.

The grant received relates to an asset and has been presented in the statement of financial position as deferred income and released to the consolidated statement of comprehensive income over the period of the asset. It is classified as other income.

Where cash has been received in advance of obligations being fulfilled by the Company, these amounts have been presented as deferred income in the statement of financial position. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due and associated costs.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and bank overdraft. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Notes to the financial statements (*continued*)

1. Accounting policies (*continued*)

Fair value measurement policy

The Group measures contingent consideration, derivatives and investment properties at fair value at each reporting date. Fair values of financial instruments measured at amortised cost are disclosed in note 6. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The Group must be able to access the principal or the most advantageous market at the measurement date. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the aggregated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the aggregated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Group's management determines the policies and procedures for recurring fair value measurement, such as investment properties.

External valuers are involved for valuation of significant assets, such as investment properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Management discusses and reviews, the Group's external valuers, valuation techniques and assumptions used for each property.

At each reporting date, management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. Management, in conjunction with the Group's external valuers, also compares changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

Notes to the financial statements (continued)

1. Accounting policies (continued)

Provisions

A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

Adopted IFRSs not yet applied

The following Adopted IFRSs have been issued but have not been applied by the Group in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

- IFRS 9 Financial Instruments (effective date 1 January 2018).
- IFRS 15 Revenue from Contract with Customers (effective date 1 January 2018).
- IFRS 16 Leases (effective date 1 January 2019).
- IFRIC 23 Uncertainty over Income Tax Treatments (effective date to be confirmed).
- Annual Improvements to IFRS Standards 2014-2016 Cycle (effective date to be confirmed).

2. Remuneration of directors

	2018	2017
	£	£
All Directors		
Directors' emoluments and pension	<u>2,026,017</u>	<u>3,149,780</u>
Highest paid Director		
Director's emoluments and pension	<u>736,076</u>	<u>1,952,520</u>

3. Operating profit includes the following:

3a. Administrative expenses

	2018	2017
	£	£
Employment costs	6,984,963	7,975,575
Establishment and office running costs	3,180,168	3,267,336
Costs charged to inventory	(7,530,938)	(9,318,080)
Professional fees	408,531	115,974
Total expense	<u>3,042,724</u>	<u>2,040,805</u>

Notes to the financial statements (continued)

3b. Staff numbers and costs

The Group employed 71 staff at the end of the financial year (2017: 69).

Administrative costs include the following staff costs:

	2018 £	2017 £
Wages and Salaries	5,853,223	6,750,734
National Insurance	733,241	856,202
Pension costs	298,401	262,964
Staff benefits	100,098	105,675
Total expense	<u>6,984,963</u>	<u>7,975,575</u>

3c. Expenses and auditor's remuneration

	Group 2018 £	Group 2017 £	Company 2018 £	Company 2017 £
Amounts paid to the auditor for audit services	<u>75,530</u>	<u>76,400</u>	<u>7,791</u>	<u>7,565</u>

There were no non-audit fees paid to the auditor.

4. Finance income and expense

Recognised in the consolidated statement of comprehensive income:

	2018 £	2017 £
Other interest revenue	3,662	-
Bank interest received	558	25,472
Bank interest and charges paid	(75,468)	(12,713)
LEEF interest paid	(651,942)	(144,615)
Finance expense	(2,207,174)	-
	<u>(2,930,364)</u>	<u>(131,856)</u>

Included in finance expense is interest expense capitalised in prior years subsequently recharged to a subsidiary but expensed on consolidation.

Notes to the financial statements (continued)

5. Taxation

Recognised in the consolidated statement of comprehensive income:

	2018	2017
	£	£
Adjustment in respect of prior financial years	(943,100)	(58,562)
Deferred tax adjustment	(171,455)	(151,709)
Current year tax charge	(1,973,829)	(65,529)
Change in tax rate	(204,061)	(159,935)
Total taxation	<u>(3,292,445)</u>	<u>(435,735)</u>

Reconciliation of effective tax rate:

	2018	2017
	£	£
(Loss)/Profit for the year	(2,384,510)	2,327,093
Total taxation	3,292,445	435,735
Profit before tax and after adjustment	<u>907,935</u>	<u>2,762,828</u>
Tax using the UK corporation tax rate of 19% (2017: 20%)	(172,507)	(552,566)
Adjustment in respect of prior financial years	(943,101)	(58,562)
Deferred tax movement in the year	(171,455)	(151,709)
Brought forward losses utilised	509,275	13,403
Other tax adjustments	(1,891,233)	473,634
Change in tax rate	(204,061)	(159,935)
Finance expense	(419,363)	-
Total tax in the consolidated statement of comprehensive income	<u>(3,292,445)</u>	<u>(435,735)</u>

Reductions in the UK Corporation tax rate from 21% to 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. An additional reduction to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. The reduction will reduce the Company's future tax accordingly.

Notes to the financial statements (continued)

6. Investments

Investment Property – Group:

Investments in the Group relate to six apartments on Greenwich Peninsula acquired in October 2016 which are treated as investment property. They were initially measured at cost in the statement of financial position and were independently valued by Cordell Marks, Chartered Surveyors.

The subsequent measurement of the investment property is at fair value, endorsed by the Directors. The fair value is the most appropriate valuation model as it reflects the current prices in the real estate market for similar sized properties on Greenwich Peninsula.

	2018	2017
	£	£
Investments	<u>8,987,317</u>	<u>8,987,317</u>

The fair value of investment property approximates to book value.

Investment property measured at fair value:

The fair value measurement hierarchy of the Group's assets:

Quantitative disclosures fair value measurement hierarchy for assets as at 31 March 2018 are as follows:

			Quoted prices in active markets	Significant observable inputs	Significant unobservable inputs
	Date of valuation	Total	Level 1	Level 2	Level 3
		£	£	£	£
Investment property measured at fair value	5 Oct 2016	8,987,317	-	-	8,987,317

There have been no transfers between Level 1 and Level 2 during 2018 (2017: no transfer), and no transfers into and out of Level 3 fair value measurements (2017: no transfers).

It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

Notes to the financial statements (continued)

6. Investments (continued)

Investments in subsidiaries – Company:

	Country of incorporation	Class of shares held	Amount 2018 £	Amount 2017 £	Ownership 2018 %	Ownership 2017 %
Knight Dragon Developments Limited	United Kingdom	Ordinary	471,798	471,798	100%	100%
Knight Dragon Infrastructure Limited	United Kingdom	Ordinary	1	1	100%	100%
Knight Dragon Overriding Lease Company Limited	United Kingdom	Ordinary	1	1	100%	100%
Knight Dragon M0114A Limited	United Kingdom	Ordinary	1	1	100%	100%
Knight Dragon M0114B Limited	United Kingdom	Ordinary	1	1	100%	100%
Peninsula Quays Limited	United Kingdom	Ordinary	1	1	100%	100%
Knight Dragon Meridian Limited	United Kingdom	Ordinary	23,086,896	23,086,896	100%	100%
Knight Dragon (N0205) Limited	United Kingdom	Ordinary	1	1	100%	100%
GPRL N0202 Development Company Limited	United Kingdom	Ordinary	1	1	100%	100%
GPRL N0202 Land Limited	United Kingdom	Ordinary	1	1	100%	100%
GPRL Peninsula Services Limited	United Kingdom	Ordinary	1	1	100%	100%
Greenwich Peninsula Residential Development Company Limited	United Kingdom	Ordinary	1	1	100%	100%
Knight Dragon M0115 Limited	United Kingdom	Ordinary	1	1	100%	100%
GPRL Retail Limited	United Kingdom	Ordinary	100	100	100%	100%
Knight Dragon M0117 Limited	United Kingdom	Ordinary	1	1	100%	100%
Knight Dragon N0206 Limited	United Kingdom	Ordinary	10,000	10,000	100%	100%
Greenwich Peninsula ESCO Limited	United Kingdom	Ordinary	1,000	1,000	100%	100%
Loka Energy Limited	United Kingdom	Ordinary	-	1,000	-	100%
Knight Dragon M0103 Limited	United Kingdom	Ordinary	1	1	100%	100%
Knight Dragon M0104 Limited	United Kingdom	Ordinary	1	1	100%	100%
Knight Dragon M0121 Limited	United Kingdom	Ordinary	1	1	100%	100%
Knight Dragon M0116 Limited	United Kingdom	Ordinary	1	1	100%	100%
Knight Dragon Residential M0115 Limited	United Kingdom	Ordinary	1	1	100%	100%
Knight Dragon Residential M0117 Limited	United Kingdom	Ordinary	1	1	100%	100%
Knight Dragon Peninsula Place Limited	United Kingdom	Ordinary	1	1	100%	100%
Knight Dragon 18.02 Limited	United Kingdom	Ordinary	1	1	100%	100%
Knight Dragon 18.03 Limited	United Kingdom	Ordinary	1	1	100%	100%
Knight Dragon 19.04 Limited	United Kingdom	Ordinary	1	1	100%	100%
Knight Dragon 19.05 Limited	United Kingdom	Ordinary	1	1	100%	100%
Knight Dragon Finance Limited	United Kingdom	Ordinary	1	1	100%	100%
GP Meridian Events Limited	United Kingdom	Ordinary	1	1	100%	100%
Greenwich Peninsula Lettings Limited	United Kingdom	Ordinary	1	1	100%	100%
Greenwich Peninsula Sales Limited	United Kingdom	Ordinary	1	1	100%	100%
Knight Dragon Strategic Investments Limited	United Kingdom	Ordinary	3,997,707	1	100%	100%
Knight Dragon Special Projects Limited	United Kingdom	Ordinary	1	1	100%	100%
GP Upper Riverside District Manco Limited	United Kingdom	Ordinary	1	-	100%	-
GP Lower Riverside District Manco Limited	United Kingdom	Ordinary	1	-	100%	-
Knight Dragon P5K Limited	United Kingdom	Ordinary	1	-	100%	-
Design District Limited	United Kingdom	Ordinary	1	-	100%	-
			27,567,533	23,570,823		

Knight Dragon M0114A Limited and Knight Dragon M0114B Limited are each 50% partners in Knight Dragon M0114 Limited Liability Partnership.

All subsidiaries are United Kingdom registered companies at the following address:
Level 9, 6 Mitre Passage, Greenwich Peninsula, London, SE10 0ER

Notes to the financial statements (continued)

7. Property, Plant and Equipment for the Group

	Temporary energy centre £000	Main energy centre £000	Heat network £000	HIUs £000	Construction in progress £000	IT assets £000	Furniture and fittings £000	Total £000
Cost								
At 1 April 2017	2,276	23,078	2,268	2,342	5,003	210	862	36,039
Additions	157	728	5,370	51	241	41	80	6,668
Completed in the year	-	3	3,996	-	(3,999)	-	-	-
At 31 March 2018	2,433	23,809	11,634	2,393	1,245	251	942	42,707
Accumulated depreciation								
At 1 April 2017	(143)	(171)	(18)	(69)	-	(28)	(67)	(496)
Charge for the year	(123)	(715)	(178)	(158)	-	(75)	(117)	(1,366)
At 31 March 2018	(266)	(886)	(196)	(227)	-	(103)	(184)	(1,862)
Net Book Value								
At 1 April 2017	2,133	22,907	2,250	2,273	5,003	182	795	35,543
At 31 March 2018	2,167	22,923	11,438	2,166	1,245	148	758	40,845
Cost								
At 1 April 2016	1,228	-	-	-	17,534	-	-	18,762
Additions	284	10,384	131	403	5,003	210	862	17,277
Completed in the year	764	12,694	2,137	1,939	(17,534)	-	-	-
At 31 March 2017	2,276	23,078	2,268	2,342	5,003	210	862	36,039
Accumulated depreciation								
At 1 April 2016	(62)	-	-	-	-	-	-	(62)
Charge for the year	(81)	(171)	(18)	(69)	-	(28)	(67)	(434)
At 31 March 2017	(143)	(171)	(18)	(69)	-	(28)	(67)	(496)
Net Book Value								
At 1 April 2016	1,166	-	-	-	17,534	-	-	18,700
At 31 March 2017	2,133	22,907	2,250	2,273	5,003	182	795	35,543

Notes to the financial statements (continued)

7. Property, Plant and Equipment for the Group (continued)

The following are the depreciation rates used by the Group:

Category	Useful Life
IT assets	3 years
Furniture & fittings	10 years
HIUs/heat substations	15 years
Temporary energy centre	20 years
Electricity/gas connection	30 years
Heat network	50 years
Buildings	50 years

The main energy centre is made up of a combination of the above rates.

8. Amounts due from related entities

	Group 2018 £	Group 2017 £	Company 2018 £	Company 2017 £
Loans to subsidiaries	-	-	504,500,667	491,530,418

The fair value of trade and other receivables approximates to book value.

Interest is charged at the 3 month Libor + 5% per annum and in KDDL at 3 month Libor + 2% per annum. The directors of the Company consider the loans to be repayable in a period greater than five years as they relate to loans from the parent who cannot seek repayment until funds become available.

9. Deferred tax assets and liabilities – Group

Recognised deferred tax assets

Deferred tax assets are attributable to the following:

	2018 £	2017 £
Property, plant and equipment	(1,202,918)	(138,977)
Tax value of loss carried forward	2,765,985	3,020,661
Tax assets	1,563,067	2,881,684
Net tax assets	1,563,067	2,881,684

Notes to the financial statements (continued)

9. Deferred tax assets and liabilities – Group (continued)

Movement in deferred tax during the year

	1 April 2016	Adjustment in respect of prior years	Recognised in income	31 March 2017
	£	£	£	£
Property, plant and equipment	(5,656)	283	(133,604)	(138,977)
Tax value of loss carried forward	3,257,546	(58,845)	(178,040)	3,020,661
	<u>3,251,890</u>	<u>(58,562)</u>	<u>(311,644)</u>	<u>2,881,684</u>

	1 April 2017	Adjustment in respect of prior years	Recognised in income	31 March 2018
	£	£	£	£
Property, plant and equipment	(138,977)	(1,523,110)	459,169	(1,202,918)
Tax value of loss carried forward	3,020,661	580,009	(834,685)	2,765,985
	<u>2,881,684</u>	<u>(943,101)</u>	<u>(375,516)</u>	<u>1,563,067</u>

10. Inventories

	Group 2018	Group 2017	Company 2018	Company 2017
	£	£	£	£
Work in progress	<u>737,504,841</u>	<u>606,551,351</u>	<u>-</u>	<u>-</u>

Inventory includes capitalised interest costs in the year of £8,006,122 (2017: £17,538,773) in the Group. Shareholder interest is capitalised in the development plots at 3 month Libor + 5% per annum and in KDDL at 3 month Libor + 2% per annum. Third party interest attracts variable interest rates at an average of 3.5%. These interest costs are directly attributable to the development assets which are considered qualifying assets under IAS 23, 'Borrowing costs'.

Notes to the financial statements (continued)

11. Trade and other receivables

	Group 2018 £	Group 2017 £	Company 2018 £	Company 2017 £
Trade receivables	133,072	3,373,883	3,741,672	-
VAT receivables	2,972,671	685,112	1,491	10,770
Trade receivables due from related parties	10,229	7,604,233	15,310,229	5,317,865
Other receivables	2,053,287	2,122,972	2,000	160,000
Accrued income	24,602,765	13,858,684	66,333	-
Prepayments	971,008	6,416,667	-	-
Total trade and other receivables	<u>30,743,032</u>	<u>34,061,551</u>	<u>19,121,725</u>	<u>5,488,635</u>

The fair value of trade and other receivables approximates to book value.

Trade receivables are non-interest-bearing and are generally on 30 day terms. All trade receivables are current and considered recoverable.

12. Cash and cash equivalents

	Group 2018 £	Group 2017 £	Company 2018 £	Company 2017 £
Cash per statement of financial position	76,718,016	13,911,768	69,813,181	10,467,395
Cash and cash equivalents per statement of cash flows	<u>76,718,016</u>	<u>13,911,768</u>	<u>69,813,181</u>	<u>10,467,395</u>

13. Trade and other payables

	Group 2018 £	Group 2017 £	Company 2018 £	Company 2017 £
Trade payables	7,963,031	4,974,843	-	663
Trade payables due to related parties	10,229	7,604,233	5	5,450,299
Other payables	1,722,592	303,884	104	2,120
Taxation payable	2,039,357	65,528	65,528	65,528
Accrued development costs	2,740,760	19,726,283	16,651	9,105
Total trade and other payables	<u>14,475,969</u>	<u>32,674,771</u>	<u>82,288</u>	<u>5,527,715</u>

The fair value of trade and other payables approximates to book value.

Notes to the financial statements (continued)

14. Deferred Income

	Group 2018 £	Group 2017 £	Company 2018 £	Company 2017 £
Current				
Sales deposits	8,571,734	8,551,732	-	-
Fees received in advance for services	12,489	-	-	-
Other income accrued	20,000	-	-	-
Grant from the Royal Borough of Greenwich	140,000	140,479	-	-
	<u>8,744,223</u>	<u>8,692,211</u>	<u>-</u>	<u>-</u>
Non-current				
Grant from the Royal Borough of Greenwich	6,685,000	6,825,000	-	-
	<u>6,685,000</u>	<u>6,825,000</u>	<u>-</u>	<u>-</u>

The sales deposits balance includes reservation deposits paid in respect of residential units that have not been exchanged as at 31 March 2018.

The fees received in advance for services includes management and rent collection fees.

The Grant is to aid in the construction of the main energy centre and is initially recognised as deferred income. This deferred income will be released in line with the asset and 50 years has been used to recognise the income.

15. Provisions

	Group 2018 £	Group 2017 £	Company 2018 £	Company 2017 £
Provision for future costs	<u>5,227,903</u>	<u>2,241,091</u>	<u>-</u>	<u>-</u>

The provision relates to future costs as per the build contracts which have been provided for at 31 March 2018.

16. Other interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group and Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group and Company's exposure to interest rates, see note 18.

	Group 2018 £	Group 2017 £	Company 2018 £	Company 2017 £
Current				
Loan from shareholders	-	-	-	-
Third party loans	107,032,635	-	-	-
Total interest-bearing loans and borrowings	<u>107,032,635</u>	<u>-</u>	<u>-</u>	<u>-</u>
Non-current				
Loan from shareholders	533,958,027	449,650,420	533,956,187	449,660,579
Third party loans	159,417,480	138,647,873	-	-
Total interest-bearing loans and borrowings	<u>693,375,507</u>	<u>588,298,293</u>	<u>533,956,187</u>	<u>449,660,579</u>

Notes to the financial statements (continued)

16. Other interest-bearing loans and borrowings (continued)

Shareholder interest is charged at the 3 month Libor + 5% per annum and in KDDL at 3 month Libor + 2% per annum. The directors of the Company consider the shareholder loans to be repayable in a period greater than five years as they relate to loans from the parent who cannot seek repayment until funds become available.

Third party interest is charged at an average rate of 3.5%. The loan facilities have varying lengths of maturity with £107,032,635 being due to HSBC within twelve months, for more information see note 18.

17. Share capital

	2018 £	2017 £
Allotted, called up and fully paid		
2,530,713 A Ordinary shares of £0.001 each	2,531	2,531
1,687,142 B Ordinary shares of £0.001 each	1,687	1,687
	4,218	4,218

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. There are no associated rights or preferences relating to the shares.

18. Financing Arrangements and Financial Instruments

(a) Fair values of financial instruments

All instruments recognised on the statement of financial position, including those instruments carried at amortised cost, are recognised at amounts that represent a reasonable approximation of fair value.

Trade and other receivables

The fair value of trade and other receivables, excluding construction contract debtors, is estimated as the present value of future cash flows, discounted at the market rate of interest at the date of statement of financial position if the effect is material.

Trade and other payables

The fair value of trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the date of statement of financial position if the effect is material.

Cash and cash equivalents

The fair value of cash and cash equivalents is estimated as its carrying amount where the cash is repayable on demand. Where it is not repayable on demand then the fair value is estimated at the present value of future cash flows, discounted at the market rate of interest at the date of statement of financial position.

Interest-bearing borrowings

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the date of statement of financial position.

Investment property

There have been no transfers between Level 1 and Level 2 during 2018 (2017: no transfer), and no transfers into and out of Level 3 fair value measurements (2017: no transfers).

It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

Notes to the financial statements *(continued)*

18. Financing Arrangements and Financial Instruments *(continued)*

(b) Credit risk

Financial risk management

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

Group

Credit risk represents the risk that a counterparty will not complete its obligations under a financial instrument resulting in a financial loss to the Group. The Group has exposure to credit risk from all recognised financial assets.

Trade receivables are monitored on a weekly basis to minimise the Group's exposure to credit risk. The ageing of trade receivables past due at the date of statement of financial position was:

	Group 2018 £	Group 2017 £
Group		
More than 30 days past due	<u>100,747</u>	<u>671,922</u>

There was no impairment at the date of statement of financial position (2017: £nil). Management have reviewed the debtors and consider all the debts recoverable.

Credit risk is also managed by limiting the aggregate exposure to any individual counterparty, taking into account its credit rating. Such counterparty exposures are regularly reviewed and adjusted as necessary. Accordingly, the possibility of material loss arising in the event of non-performance by counterparties is considered unlikely.

The maximum exposure to credit risk at the date of statement of financial position on financial assets recognised in the statement of financial position equals the carrying amount, net of any impairment.

Company

The Company did not have any sales in the year (2017: £nil) but intends to manage its credit risk by minimising exposure to credit risk and securing guarantees against significant credit risks.

(c) Market risk

Effective interest and re-pricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the date of statement of financial position and the period in which they re-price:

Notes to the financial statements *(continued)*

18. Financing Arrangements and Financial Instruments *(continued)*

Group 31 March 2018	Effective interest	Total £	One to Twelve Months £	One to Five Years £	More than Five Years £
Cash	0.5%-2%	76,718,016	76,718,016	-	-
Interest-bearing loans and borrowings	2%-10%	800,408,142	107,032,635	45,417,480	647,958,027

31 March 2017	Effective interest	Total £	One year or less £	One to Five Years £	5+ years £
Cash	0.5%-2%	13,911,768	13,911,768	-	-
Interest-bearing loans and borrowings	2%-10%	588,298,293	-	-	588,298,293

Company

31 March 2018	Effective interest	Total £	One to Twelve Months £	One to Five Years £	More than Five Years £
Cash	0.5%-2%	69,813,181	69,813,181	-	-
Interest-bearing loans and borrowings	2%-10%	533,956,187	-	-	533,956,187

31 March 2017	Effective interest	Total £	One to Twelve Months £	One to Five Years £	More than Five Years £
Cash	0.5%-2%	10,467,395	10,467,395	-	-
Interest-bearing loans and borrowings	2%-10%	449,660,579	-	-	449,660,579

The above table does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

Sensitivity analysis

At 31 March 2018, it was estimated that a general increase of one percentage point in interest rates would increase the Group's interest payable before tax by approximately £4,504,265 (2017: £4,207,588) based on the average outstanding balance of interest-bearing liabilities during the period.

(d) Liquidity risk

Financial risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

Notes to the financial statements (continued)

18. Financing Arrangements and Financial Instruments (continued)

Group & Company

The Group's objective is to maintain the efficient use of cash and debt facilities in order to minimise the cost of borrowing to the Group and ensure sufficient availability of credit facilities.

Liquidity risk is reduced through prudent cash management which ensures sufficient levels of cash are maintained to meet working capital requirements. It also allows flexibility of liquidity by matching maturity profiles of short term investments with cash flow requirements, and timely review and renewal of credit facilities.

The following are the contractual cash flow maturities of financial liabilities as at the end of the reporting period, including estimated interest payments and excluding the impact of netting agreements.

Group	Carrying	Contractual	Less than	One to Five	More than
As at 31 March 2018	Amount	Cash Flows	one year	Years	Five Years
	£	£	£	£	£
Non derivative financial liabilities					
Trade payables & accrued expenses	12,436,612	12,436,612	12,436,612	-	-
Interest bearing loans	800,408,142	862,857,193	109,512,490	49,551,190	703,793,513
Total	812,844,754	875,293,805	121,949,102	49,551,190	703,793,513
As at 31 March 2017	Carrying	Contractual	Less than	One to Five	More than
	Amount	Cash Flows	one year	Years	Five Years
	£	£	£	£	£
Non derivative financial liabilities					
Trade payables & accrued expenses	32,609,243	32,609,243	32,609,243	-	-
Interest bearing loans	588,298,293	618,750,050	-	-	618,750,050
Total	620,907,536	651,359,293	32,609,243	-	618,750,050
Company	Carrying	Contractual	Less than	One to Five	More than
As at 31 March 2018	Amount	Cash Flows	one year	Years	Five Years
	£	£	£	£	£
Non derivative financial liabilities					
Trade payables & accrued expenses	16,760	16,760	16,760	-	-
Interest bearing loans	533,956,187	548,935,913	-	-	548,935,913
Total	533,972,947	548,952,673	16,760	-	548,935,913
As at 31 March 2017	Carrying	Contractual	Less than	One to Five	More than
	Amount	Cash Flows	one year	Years	Five Years
	£	£	£	£	£
Non derivative financial liabilities					
Trade payables & accrued expenses	5,462,187	5,462,187	5,462,187	-	-
Interest bearing loans	449,660,579	480,102,177	-	-	480,102,177
Total	455,122,766	485,564,364	5,462,187	-	480,102,177

Notes to the financial statements (continued)

19. Financing Arrangements and Financial Instruments (continued)

The directors of the Group and the Company consider the long term loans to be repayable in a period greater than five years (2017: greater than five years) as they relate to loans from the parent who cannot seek repayment until funds become available. Given the profile of the development, they believe this to represent the most likely period of repayment. The parent has indicated via the statement of support for the Group and Company that it would support the Group and Company for at least the next twelve months. See note 1, Going Concern.

(e) Capital risk management

The Group's overall capital risk management strategy is to maintain a strong capital base so as to sustain investor, creditor and market confidence and for the future development of the business.

For the Group's purposes, capital consists of issued share capital, share premium (where appropriate), retained earnings, reserves (where appropriate) and also long-term shareholders' loans.

There were no changes in the Group's approach to capital management during both years.

19. Contingencies and commitments

	Group 2018 £	Group 2017 £	Company 2018 £	Company 2017 £
Construction, infrastructure and other works	201,035,414	152,818,472	-	-
	<u>201,035,414</u>	<u>152,818,472</u>	<u>-</u>	<u>-</u>

Commitments are disclosed where the obligation for construction, infrastructure and other works relating to the regeneration of Greenwich Peninsula has been triggered by events identified in legal documents.

The Group total as at 31 March 2018 is mainly comprised of the build contracts for private and affordable housing and associated infrastructure, scheduled to be incurred over the next two years.

Notes to the financial statements *(continued)*

20. Related party transactions

At the year end the Company was owed the following amounts from subsidiaries:

	2018	2017
	£	£
Knight Dragon Developments Limited	81,971,673	187,478,936
Knight Dragon Meridian Limited	124,538,990	91,580,747
Peninsula Quays Limited	6,167,627	5,844,729
Knight Dragon M0114A Limited	935,845	933,913
Knight Dragon (N0205) Limited	104,302,570	92,199,810
Knight Dragon M0115 Limited	142,306	45,200
Knight Dragon M0117 Limited	-	842,572
Knight Dragon M0103 Limited	-	30,864,232
Knight Dragon M0104 Limited	7,824,893	42,917,764
Knight Dragon M0116 Limited	1,521,865	-
Knight Dragon N0206 Limited	137,936,473	17,532,584
Loka Energy Limited	2,703,279	1,388,646
Greenwich Peninsula ESCO Limited	14,935,889	10,976,886
Knight Dragon Peninsula Place Limited	9,494,178	6,430,367
Knight Dragon M0121 Limited	6,175,321	5,783,236
Knight Dragon M0114B Limited	8,297	6,365
Knight Dragon Strategic Investments Limited	247,814	4,007,763
Greenwich Peninsula Lettings Limited	-	10,875
Greenwich Peninsula Sales Limited	211	13,231
GP Meridian Events Limited	-	4,073
Knight Dragon 18.02 Limited	1,834,553	1,346,692
Knight Dragon 18.03 Limited	3,282,734	2,679,098
Knight Dragon 19.04 Limited	2,163,237	1,421,561
Knight Dragon 19.05 Limited	6,266,359	5,083,113
Knight Dragon Special Projects Limited	15,300,000	-
	527,754,114	509,392,393

Notes to the financial statements *(continued)*

20. Related party transactions

At the year end the Company owed the following amounts to subsidiaries:

	2018	2017
	£	£
Knight Dragon Developments Limited	-	(2,101,188)
Knight Dragon (N0205) Limited	-	(322,218)
GPRL Peninsula Services Limited	-	(38,571)
Knight Dragon M0114 Limited Liability Partnership	(2,560,252)	(3,665,462)
Knight Dragon M0103 Limited	(5,346,935)	(214,271)
Knight Dragon M0104 Limited	-	(127,735)
Knight Dragon M0116 Limited	-	(2,082,821)
Knight Dragon Meridian Limited	-	(26,487)
Knight Dragon M0115 Limited	-	(3,871,006)
Knight Dragon M0121 Limited	-	(20,160)
Knight Dragon M0117 Limited	(19,732)	(4,050,197)
Loka Energy Limited	-	(105,912)
Knight Dragon N0206 Limited	-	(290,929)
Greenwich Peninsula Meridian Events Limited	(16,300)	-
Greenwich Peninsula Services Limited	(1)	-
Knight Dragon P5K Limited	(1)	-
Design District Limited	(1)	-
Upper Riverside District Manco Limited	(1)	-
Lower Riverside District Manco Limited	(1)	-
	<u>(7,943,224)</u>	<u>(16,916,957)</u>

Related party transactions were concluded on terms equivalent to those prevailing in an arm's length transaction.

Existing loan stock

At the year-end existing loan stock of £146,361,212 (2017: £142,806,161) was owed to Knight Dragon Ltd ("KDL"). Interest is charged quarterly at 3 month Libor + 2% per annum for all loan stock balances.

New loan stock

At the year-end new loan stock of £387,594,975 (2017: £306,844,259) was owed to KDL. Interest is charged quarterly at 3 month Libor + 5% per annum on all loan stock balances.

21. Subsequent events

There have been no significant subsequent events.

22. Ultimate parent undertaking and parent undertaking of larger group of which the Company is a member

The ultimate parent undertakings and controlling parties are Cheng Yu Tung Family (Holdings) Limited (incorporated and registered in the British Virgin Islands under company number 595431) and Cheng Yu Tung Family (Holdings II) Limited (incorporated and registered in the British Virgin Islands under company number 1681935).