

THEOWAL LIMITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012



Company Registration No: 06570726

THEOWAL LIMITED

DIRECTORS AND OFFICERS

DIRECTORS

M D Watson
C C McGill

SECRETARY

P A Hallam

REGISTERED OFFICE

Molteno House
302 Regents Park Road
London
N3 2JX

AUDITOR

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

THEOWAL LIMITED

DIRECTORS' REPORT

The directors submit their report and the financial statements for the year ended 31 December 2012

Principal activities

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

Review of the business and future developments

The directors are satisfied with the financial position of the company at the year end subject to the matters discussed in the accounting policies on page 7 which may have an impact on the company's ability to continue as a going concern

Results and dividends

The profit for the year was £162,031 (2011 £170,547) The directors do not recommend the payment of a dividend

Investment properties

The investment properties have been valued by the directors at £20,100,000 (2011 £16,360,000) The resultant revaluation surplus in the year amounted to £3,746,163 (2011 £276,384)

Directors

The directors who served during the year were as follows

M D Watson	(appointed 14 June 2013)
W K Procter	(resigned 14 June 2013)
C C McGill	

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing those financial statements, the directors are required to

- a select suitable accounting policies and then apply them consistently,
- b make judgements and accounting estimates that are reasonable and prudent,
- c prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

THEOWAL LIMITED

DIRECTORS' REPORT

Statement as to disclosure of information to auditor

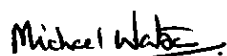
The directors who were in office on the date of approval of these financial statements have confirmed that, as far as they are aware, there is no relevant audit information of which the auditors are unaware. The directors have confirmed that they have taken all the steps that they ought to have taken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

Auditor

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

This report has been prepared in accordance with the provisions applicable to companies entitled to the small companies exemption.

By order of the Board



M D Watson

Director

30 September 2013

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THEOWAL LIMITED

We have audited the financial statements on pages 5 to 14. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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.

Respective responsibilities of directors and auditor

As more fully explained in the Directors' Responsibilities Statement set out on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [http://www.frc.org.uk/Our-Work/Codes-Standards/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors/Scope-of-audit/UK-Private-Sector-Entity-\(issued-1-December-2010\).aspx](http://www.frc.org.uk/Our-Work/Codes-Standards/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors/Scope-of-audit/UK-Private-Sector-Entity-(issued-1-December-2010).aspx)

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its result for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter – Going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in the accounting policies on page 7 of the financial statements which set out some possible events which could result from the company's United Kingdom group's cross collateralised borrowings from its principal lender not being refinanced, which may have an impact on the company's ability to continue as a going concern.

These events indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

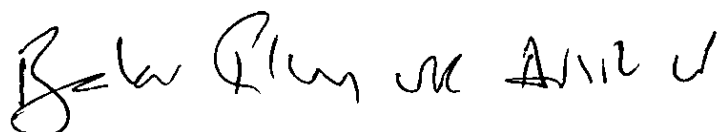
Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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



Colin Roberts FCA (Senior Statutory Auditor)

For and on behalf of BAKER TILLY UK AUDIT LLP, Statutory Auditor
Chartered Accountants
3rd Floor
One London Square Cross Lanes
Guildford
Surrey GU1 1UN

3 SEPTEMBER 2013

THEOWAL LIMITED**PROFIT AND LOSS ACCOUNT****FOR THE YEAR ENDED 31 DECEMBER 2012**

	Notes	2012 £	2011 £
Turnover	1	671,512	685,341
Administration costs		(219,811)	(196,417)
Operating profit		<u>451,700</u>	<u>488,924</u>
Profit on sale of investment property		347	1,716
Interest payable and similar charges	2	(290,017)	(320,093)
Profit on ordinary activities before taxation	3	<u>162,031</u>	<u>170,547</u>
Tax on profit on ordinary activities	5	-	-
Profit on ordinary activities after taxation	12	<u>£ 162,031</u>	<u>£ 170,547</u>

The operating profit arises from the company's continuing operations

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**FOR THE YEAR ENDED 31 DECEMBER 2012**

		2012 £	2011 £
Profit for the financial year		162,031	170,547
Unrealised surplus on valuation of investment properties	6	3,746,163	276,384
Total recognised gains and losses for the year		<u>£ 3,908,194</u>	<u>£ 446,931</u>

NOTE OF HISTORICAL COST PROFITS AND LOSSES

		2012 £	2011 £
Profit on ordinary activities before tax		162,031	170,547
Realisation of property revaluation gains of previous years	12	2,816	1,017
Historical cost profit on ordinary activities before taxation		<u>£ 164,847</u>	<u>£ 171,564</u>
Historical cost profit on ordinary activities after taxation		<u>£ 164,847</u>	<u>£ 171,564</u>

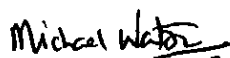
THEOWAL LIMITED

BALANCE SHEET (Company Registration Number: 06570726)

AT 31 DECEMBER 2012

	Notes	2012 £	2011 £
Fixed assets			
Investment properties	6	20,100,000	16,360,000
Current assets			
Debtors	7	83,082	75,085
Creditors: amounts falling due within one year	8	(136,819)	(138,886)
Net current (liabilities)/assets		(53,737)	(63,801)
Total assets less current liabilities		20,046,263	16,269,199
Creditors: amounts falling due after more than one year	9	(8,243,638)	(8,401,768)
Net assets		£ 11,802,625	£ 7,894,431
Capital and reserves			
Called up share capital	11	1	1
Revaluation reserve	12	11,215,819	7,472,472
Profit and loss account	12	586,805	421,958
Shareholders' funds	12	£ 11,802,625	£ 7,894,431

The financial statements on pages 5 to 14 were approved by the board of directors and authorised for issue on ~~30 September~~ 2013 and are signed on its behalf by



M D Watson
Director

THEOWAL LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared under the historical cost convention as modified by the revaluation of investment properties and in accordance with applicable United Kingdom accounting standards

Going concern

The company is party to a cross collateralised funding structure. The directors have assessed the operation of the structure and, as the principal lender has continued to approve expenditure which if not paid would cause the company to fail to meet its liabilities as they fall due, and is expected to continue to do so, have determined that the company has, or can expect to have, subject to the further matters set out hereafter, sufficient working capital for their needs for at least 12 months from the date of approval of these financial statements. In view of this the directors consider it appropriate for the financial statements to be prepared on a going concern basis.

The cross collateralised loan facility from the principal lender was originally due for repayment in 2011 but no repayment was made and the companies within the facility group entered into standstill agreements with the principal lender on 25 October 2011. The standstill period expired on 31 March 2012 and in the period after the standstill expired the facility group and principal lender continued to act in broad accordance with the terms of the standstill agreement although nothing was agreed formally. On 31 August 2012 an interest shortfall occurred.

On 10 June 2013 the facility group's principal lender issued a formal demand for payment of the loans and applied to the courts to appoint administrators. These applications were withdrawn following court hearings. The current position is therefore that the facility group's cross collateralised bank loans of £224.6m (2011 £228.1m) are effectively repayable on demand.

The facility group also has an interest rate swap and inflation swap that on a combined basis are currently out of the money. In the event of a swap break the value of the swaps at that time would be added to the liability of the facility group and would become immediately repayable. The combined value of the swaps at the year end date was £75,459,973 (2011 £76,454,972).

Furthermore, default interest has been charged and accrued on the facility amounting to £36.6m million as at 31 December 2012 and post year end the companies within the facility group have been operating at a net overdraft position.

The facility group is currently exploring various alternative repayment possibilities whether by way of putting in place new financing facilities or that resulting from a sale of the facility group's property portfolio. Accordingly, save as a consequence of a refinancing, a property portfolio sale or the group being placed into administration, the directors do not expect a withdrawal of the bank facilities for at least 12 months from the date of approval of these financial statements.

The financial statements have been prepared on the going concern basis which assumes that the company's principal lender will not withdraw its loan facilities to the facility group and that ultimately new financing facilities will be put in place. The principal direct and indirect effects of a withdrawal by the principal lender of the facility group's borrowings, are that

1. the company's own bank loan facilities and the cross collateralised borrowings of the company's group from the principal lender, as set out in note 13, totalling £224,617,020 (2011 £228,050,587) at the year end, become immediately repayable and further costs could arise in respect of the interest rate arrangements that fix the interest rates on those loans and inflation rate swaps, the level of which would depend on the market rates of interest and inflation prevailing at the time of such a termination but at the year end these combined costs were £75,459,973 (2011 £76,454,972),

THEOWAL LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

ACCOUNTING POLICIES

Going concern (Continued)

- ii if not repaid when due, the principal lender to the company's United Kingdom holding company could exercise its share pledges over that holding company and its group companies and take control or could exercise its security direct over the company's investment properties. The group's principal lender may seek to sell the holding company, individual companies or dispose of assets separately or together and at a time of its own choosing. This process may not represent an orderly realisation in the normal course of business so the company's investment properties would, probably, only be realised at values significantly less than their carrying values in these financial statements, and
- iii if a realisation of the company's investment properties is carried out then a tax liability would arise on any sale of the properties at values in excess of cost. No provision is made in the financial statements for any such tax liability. A disposal based on the carrying value of the properties as at the year end would have resulted in a tax liability crystallising, estimated at £2,298,000 (2011 £1,604,000), as referred to in note 10

Investment properties

The company's holdings of Freehold Reversionary Interests are classified as Investment Property and accounted for in accordance with Statement of Standard Accounting Practice 19 (SSAP 19) 'Accounting for Investment properties'

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

Recognising the unusual nature of these investment properties and the lack of a regular market for such significant portfolios of such assets, which are in distinct contrast with the more regular "bricks and mortar" investment properties commonly accounted for under SSAP 19, the directors are of the opinion that the best approximation to an open market value for these properties as required under SSAP 19, is provided by a discounted cashflow valuation of the income streams generated by these assets

The valuation of the entire Freehold Reversionary Interest portfolio is undertaken by the directors. Any surplus identified over the cost of the assets is accounted for as an unrealised gain and taken to the revaluation reserve, any deficits are applied firstly to any previously identified surpluses and any residual amount written off to the profit and loss account

No depreciation or amortisation is provided in respect of investment properties

This treatment, as regards the company's investment properties, is a departure from the requirements of the Companies Act concerning depreciation of fixed assets. However, these properties are not held for consumption but for investment and the directors consider that systematic annual depreciation would be inappropriate. The accounting policy adopted is therefore necessary for the accounts to give a true and fair view. Depreciation or amortisation is only one of the many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified

Turnover

Turnover comprises rent receivable and other operating income arising from investment properties. Turnover is derived wholly in the United Kingdom

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

THEOWAL LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

ACCOUNTING POLICIES

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements.

No provision is made for deferred tax on unrealised gains recognised on revaluing property to its market value.

Deferred tax is measured at the tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. An asset is not recognised to the extent that the transfer of economic benefits in future is uncertain. Deferred tax is measured on a non-discounted basis.

Cash flow statement

The company has taken advantage of the small company exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1.

THEOWAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

1 Turnover

	2012 £	2011 £
Rent receivable	530,635	529,974
Other income	140,877	155,367
	<u>£ 671,512</u>	<u>£ 685,341</u>

2 Interest payable and similar charges

	2012 £	2011 £
Interest on parent company loan	161,118	191,194
Parent company finance charges	128,899	128,899
	<u>£ 290,017</u>	<u>£ 320,093</u>

3. Profit on ordinary activities before taxation

	2012 £	2011 £
The profit on ordinary activities before taxation is stated after charging		
Auditor's remuneration	5,000	4,000
Exceptional legal and professional fees	65,136	50,553
	<u></u>	<u></u>

4 Employees and directors

Other than the directors, who received no remuneration, no persons were employed during the year

THEOWAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

5 Taxation

	2012 £	2011 £
Current tax		
UK corporation tax on profits for the year	-	-
Total current tax	£ -	£ -
Factors affecting tax charge for the year		
Profit on ordinary activities before tax	162,031	170,547
Profit on ordinary activities multiplied by the standard rate of Corporation tax in the UK of 24% (2011 26%)	38,887	44,342
Effects of		
Group relief received without charge	(49,750)	(44,576)
Disallowable expenditure	10,283	-
Chargeable gain adjustment	580	234
Current tax charge for the year	£ -	£ -

6 Fixed assets

Investment properties:	Freehold reversionary interests £
Valuation	
As at 1 January 2012	16,360,000
Disposals	(6,163)
Revaluation	3,746,163
As at 31 December 2012	20,100,000

The investment properties represent a portfolio of ground rents

At 31 December 2012 the Freehold Reversionary Interest investment properties were valued by the directors at £20,100,000 (2011 £16,360,000)

The basis of the directors' valuation of the investment properties was to project the income streams generated by the portfolio. The principle assumptions used in these valuations were

Freehold Reversionary Interests	- Projection of discounted income streams generated by the portfolio over 50 years, together with an assessment of the residual value of the asset at the end of that 50 year term,
Discount rate	- A series of rates between 6% and 9% reflecting the risk profile of the different income streams,
RPI basis for inflation assumptions	- Inflation data taken from publicly available sources,

THEOWAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

6 Fixed assets (Continued)

Incidence rates of property sales, lease extensions, and other income - Projected according to historical incidence rates depending on the length of ownership and lease term remaining,

Taxation - No allowance has been made for taxation in projecting the future revenue flow,

The assumption with the most significant impact on the valuation is the discount rate used. A 1% increase or decrease in the rates applied reduces or increases the valuation by 22% and 33% respectively.

The historical cost of the freehold reversionary interests to the company at 31 December 2012 was £8,884,181 (2011 £8,887,528)

7 Debtors

	2012 £	2011 £
Trade debtors	£ 83,082	£ 75,085

8 Creditors - amounts falling due in less than one year:

	2012 £	2011 £
Accruals and deferred income	£ 136,819	£ 138,886

9 Creditors - amounts falling due after more than one year:

	2012 £	2011 £
Amount due to parent company	£ 8,243,638	£ 8,401,768

The amount due, subject to note 13, is unsecured and has no specific repayment date. Despite the loan being repayable on demand it is not the intention for the loan to be repaid within one year and it has therefore been treated as due after more than one year. Interest is charged on the loan at Libor + 1%.

The company's borrowings from the parent company have been financed by that company, in part, by way of a bank loan drawn down from a £200m cross collateralised facility, as referred to in note 13. The interest payable on this facility has been hedged by way of an interest rate fix of 6.64% on a £200m notional amount. To the extent that borrowings are less than the facility limit of £200m the benefits and burdens of the interest rate fix are shared between the parties in the cross collateralised facility which includes the company and are treated as deductions from or additions to group interest payable.

10 Deferred taxation

No provision for deferred taxation has been made in respect of the property held as an investment, which is included in these financial statements at a valuation of £20,100,000 (2011 £16,360,000). It is estimated that if the property were to be sold at that valuation the tax liability would amount approximately to £2,298,000 (2011 £1,604,000).

THEOWAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

11 Share capital

	2012 £	2011 £
Equity		
Allotted, issued and fully paid		
1 ordinary share of £1 each	£ 1	£ 1

12 Reserves and reconciliation of movements in shareholders' funds

	Revaluation reserve £	Share capital £	Profit and loss account £	Total shareholders' funds £
Opening shareholders' funds	7,472,472	1	421,958	7,894,431
Profit for the year	-	-	162,031	162,031
Realised in year	(2,816)	-	2,816	-
Revaluation surplus	3,746,163	-	-	3,746,163
Closing shareholders' funds	11,215,819	1	586,805	£ 11,802,625

13 Contingent liability

The company has given an unlimited guarantee in respect of some of the indebtedness of its United Kingdom holding company, supported by a debenture and a charge over the company's investment properties. The company has also given unlimited guarantees in respect of some of the indebtedness of the related parties Fairhold Holdings No 4 (Appts) Limited, Fairhold Holdings No 4 (RPI) Limited, Fairhold Holdings No 4 (Houses) Limited, Fairhold Holdings (2008 Q1) Limited, Fairhold Homes Investment (No 13) Limited, Fairhold Homes Investment (No 14) Limited, Fairhold Homes Investment (No 15) Limited, Fairhold Homes Investment (No 16) AL Limited, Fairhold Homes Investment (No 17) Limited, Victoria Investments (No 2) Limited and Fairhold Freehold (No 2) Limited. These parties are related by virtue of common directors and common control. At 31 December 2012 the total amount outstanding subject to these guarantees was £188,016,558 (2011 £191,450,125) and the exposure under these arrangements to the cost of terminating the interest rate swap arrangements as indicated by the fair value of these instruments as at the period end date was a liability of £75,459,973 (2011 £76,454,972).

The group has also given an unlimited guarantee in respect of some of the indebtedness of the related parties Fairhold Holdings (2008 Q2) Limited, Fairhold Holdings (2008 Q3) Limited, Fairhold Holdings (2008 Q4A) Limited, Fairhold Holdings (2009 Q1) Limited, Fairhold Freeholds (No 2) Limited, Fairhold Real Estate Limited and Victoria Investments (No 2) Limited. These parties are related by virtue of common directors and common control. The guarantee is supported by a debenture and a charge over the company's investments. The total amount outstanding subject to the guarantee at 31 December 2012 was £36,600,462 (2011 £36,600,462).

14 United Kingdom holding company

The company is a wholly owned subsidiary undertaking of Fairhold Holdings (2008 Q2) Limited, which is registered in England and Wales. This parent undertaking is the holding company of both the largest and smallest group for which consolidated accounts are prepared and of which the company is a member. Copies of the financial statements are available from Companies House, Crown Way, Mandy, Cardiff, CF14 3UZ.

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

THEOWAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

15 Ultimate holding company

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

16 Ultimate controlling party

The ultimate controlling party is the Tchenguiz Family Trust

17 Related party transactions

The company has taken advantage of the exemptions provided by Financial Reporting Standard Number 8 'Related Party Disclosures' and has not disclosed transactions entered into between two or more members of a group, provided that any subsidiary undertaking which is party to the transaction is wholly owned by a member of that group

During the year the company incurred a management charge of £146,757 (2011 £140,050) in respect of rent collection and other management services provided by Estates & Management Limited, a related party by virtue of common directors and common control