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THEOWAL LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

TUESDAY

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COMPANIES HOUSE

Company Registration No: 06570726

THEOWAL LIMITED

DIRECTORS AND OFFICERS

DIRECTORS

M D Watson
C C McGill
W K Procter

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

DIRECTORS' REPORT

The directors submit their report and the financial statements for the year ended 31 December 2014.

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 having regard to the matters discussed in the accounting policies on page 7 and the post balance sheet refinancing of the bank facilities more fully disclosed in note 18.

Results and dividends

The loss for the year was £87,255 (2013: £173,570 profit). The directors do not recommend the payment of a dividend.

Investment properties

The investment properties have been valued at £53,845,481 (2013: £32,500,000). The resultant revaluation surplus in the year amounted to £21,559,906 (2013: £12,408,136). Details of the investment properties are set out in note 6.

Directors

The directors who served during the year were as follows:

M D Watson	
W K Procter	(Appointed 28 July 2014)
C C McGill	

Statement of directors' responsibilities

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

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

a. select suitable accounting policies and then apply them consistently;

b. make judgements and accounting estimates that are reasonable and prudent;

c. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Statement as to disclosure of information to 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. The directors have also taken the available exemption from the requirement to prepare a strategic report.

By order of the Board:

Michael Watson

M D Watson
Director
23 June 2015

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THEOWAL LIMITED

We have audited the financial statements on pages 5 to 15. 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 www.frc.org.uk/auditscopeukprivate.

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 2014 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter – Valuation of investment properties
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 8 and in note 6 to the financial statements concerning the fair values of the company's investment properties which are valued on an actuarial basis. The investment properties totalling £53,845,841 included in the financial statements at 31 December 2014 were valued by the directors having regard to a valuation carried out by a leading independent firm of actuaries at the previous balance sheet date which valued the investment properties at £32,500,000. As indicated in the notes, considerable volatility exists in these valuations as demonstrated by the marked increase in the valuations since the previous balance sheet date.

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

Baker Tilly UK Audit LLP

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

23 June 2015

THEOWAL LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	2014 £	2013 £
Turnover	1	**662,062**	627,856
Administration costs		**(293,794)**	(197,382)
Operating profit		**368,268**	430,474
Loss on sale of investment property		-	(2,616)
Impairment of Investment properties	6	**(214,425)**	-
Interest payable and similar charges	2	**(241,098)**	(254,288)
(Loss)/profit on ordinary activities before taxation	3	**(87,255)**	173,570
Tax on (loss)/profit on ordinary activities	5	-	-
(Loss)/profit on ordinary activities after taxation	12	**(87,255)**	173,570

The operating profit arises from the company's continuing operations.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 31 DECEMBER 2014

		2014 £	2013 £
(Loss)/profit for the financial year		**(87,255)**	173,570
Unrealised surplus on valuation of investment properties	6	**21,559,906**	12,408,136
Total recognised gains and losses for the year		**21,472,651**	12,581,706

NOTE OF HISTORICAL COST PROFITS AND LOSSES

FOR THE YEAR ENDED 31 DECEMBER 2014

		2014 £	2013 £
(Loss)/profit on ordinary activities before tax		**(87,255)**	173,570
Realisation of property revaluation gains of previous years	12	**156,732**	4,216
Historical cost profit on ordinary activities before taxation		**26,436**	177,786
Historical cost profit on ordinary activities after taxation		**26,436**	177,786

THEOWAL LIMITED

BALANCE SHEET (Company Registration Number: 06570726)

AT 31 DECEMBER 2014

	Notes	2014 £	2013 £
Fixed assets			
Investment properties	6	**53,845,481**	32,500,000
Current assets			
Debtors	7	**71,355**	70,950
Creditors: amounts falling due within one year	8	**(262,989)**	(154,996)
Net current liabilities		**(191,634)**	(84,046)
Total assets less current liabilities		**53,653,847**	32,415,954
Creditors: amounts falling due after more than one year	9	**(7,796,865)**	(8,031,623)
Net assets		**45,856,982**	24,384,331
Capital and reserves			
Called up share capital	11	**1**	1
Revaluation reserve	12	**45,022,913**	23,619,739
Profit and loss account	12	**834,068**	764,591
Shareholders' funds	12	**45,856,982**	24,384,331

The financial statements on pages 5 to 15 were approved by the board of directors and authorised for issue on 23 June 2015 and are signed on its behalf by:

Michael Watson

M D Watson
Director

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

At the year end the company was party to a cross collateralised funding structure, which was at that time subject to an informal standstill agreement to enable the company to progress capital raising initiatives. This funding structure was refinanced subsequent to the year end and replaced by a new cross collateralised funding structure on 12 March 2015 as discussed in note 18 and below.

The cross collateralised funding structure in place at the year end included an interest rate swap and inflation swap that on a combined basis were out of the money. The combined value of the swaps at the year end date was £96,801,411 (2013: £50,987,597). In the event of a swap break these would have become repayable on demand.

In addition default interest has been charged and accrued on the facility amounting to £20.7m as at 31 December 2014 and post year end the companies within the facility group were operating at a net overdraft position.

The new capital provided in March 2015, by a new third party funder, provided sufficient funds to enable the settlement of the overdraft and loan facilities, and the swap break liabilities that arose as a result of the termination of the swap contracts. A related party, Balemor GR Limited, provided financing to the borrower companies of the bank facility for the default interest.

The new financing was provided via the newly incorporated parent company, Dellmes GR Limited (see note 14) on a cross collateralised basis. These funds have in turn been advanced to the company to clear and replace the current balance disclosed in note 9 as amounts owed to parent company, with interest accruing at the same rate.

The investment properties of the company have been used to provide security against the new financing agreement, which totals £344,800,000, and the company is now part of a new cross collateralised facility group as a result.

The new facility is a 65 year facility and there are reserves in place to ensure that the necessary liquidity is retained in the structure so that funds are available to meet liabilities as they fall due. The new facility is therefore stable, long term funding and the companies have no other third party debt following this refinancing.

The directors have assessed the operation of the new structure and have determined that the company has, or can expect to have, 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.

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 valuation of the income streams generated by these assets.

Periodically actuarial valuations of the Freehold Reversionary Interest portfolio are undertaken by independent actuaries. These valuations are reviewed by the directors at each year end and adjusted by them for any identified significant movements in the valuation drivers. Any surplus identified over the cost of the asset 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.

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.

1. Turnover

	2014	2013
	£	£
Rent receivable	538,279	531,224
Other income	123,783	96,632
	662,062	627,856

2. Interest payable and similar charges

	2014	2013
	£	£
Interest on parent company loan	122,793	125,389
Parent company finance charges	118,305	128,899
	241,098	254,288

3. (Loss)/profit on ordinary activities before taxation

	2014	2013
	£	£
The (loss)/profit on ordinary activities before taxation is stated after charging:		
Auditor's remuneration	6,266	6,100
Legal and professional fees	137,161	71,811
Impairment charge (see note 6)	214,425	-

4. Employees and directors

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

5. Taxation

	2014	2013
	£	£
Current tax:		
UK corporation tax on profits for the year	-	-
Total current tax	-	-
Factors affecting tax charge for the year:		
(Loss)/profit on ordinary activities before tax	**(87,255)**	173,570
(Loss)/profit on ordinary activities multiplied by the standard rate of Corporation tax in the UK of 21% (2013: 23%)	**(18,324)**	39,921
Effects of:		
Group relief received without charge	**(38,921)**	(43,505)
Disallowable expenditure	**57,245**	2,752
Chargeable gain adjustment	-	832
Current tax charge for the year	-	-

6. Fixed assets

Investment properties:	**Freehold reversionary interests**
Valuation	**£**
As at 1 January 2014	32,500,000
Revaluation	21,559,906
Impairment	(214,425)
As at 31 December 2014	**53,845,481**

The investment properties represent a portfolio of ground rents.

The investment properties were valued on an actuarial basis by a leading firm of independent financial and actuarial consultants as at 31 December 2013. A subsequent director's valuation was undertaken as at 31 December 2014. The updated valuation of the freehold reversionary interest investment properties of £53,845,481 has been adopted by the directors for the purposes of these financial statements.

The basis of this independent valuation performed on an actuarial basis was to project risk adjusted income streams generated by the portfolio, over 150 years discounted by a risk free rate of return.

The principal assumptions used in the independent actuarial valuation were:

RPI basis for inflation assumptions - Implied inflation vector taken from the Bank of England website;

6. **Fixed assets (Continued)**

Residential property inflation and the UK Government gilt curve;	- derived from market rental yields as found in the ARLA report
Risk free discount rate	- a series of rates reflecting the UK government gilt curve as applicable to each cash flow date.
Taxation	- no allowance has been made for taxation in projecting the future revenue flow.
Incidence rates for lease extensions and the price charged	- Historic rates and LTV valuation.

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 33% and 66% respectively and it is predominately the movement in this rate that has caused the marked increase in value during the current year.

The impairment charge in the year relates to a reassessment of individual property values following an update and review of ground rents receivable and lease information by the directors.

The impaired historical cost of the freehold reversionary interests to the company at 31 December 2014 was £8,822,567 (2013: £8,880,260).

7. **Debtors**

	2014	2013
	£	£
Trade debtors	**67,700**	70,950
Prepayments	**3,655**	-
	71,355	70,950

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

	2014	2013
	£	£
Accruals and deferred income	**262,989**	154,996

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

	2014	2013
	£	£
Amount due to parent company	**7,796,865**	8,031,623

The amount due, subject to note 13, was unsecured and had no specific repayment date. Despite the loan being repayable on demand it was not the intention for the loan to be repaid within one year and it had therefore been treated as due after more than one year. Subsequent to the year end the refinancing, as detailed in note 18, has enabled the balance to be fully repaid. Interest was charged on the loan at Libor + 1%.

At the year end the company's borrowings from the parent company were financed by that company by way of a bank loan drawn down from the cross collateralised facilities as referred to in note 13.

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 £53,845,841 (2013: £32,500,000). It is estimated that if the property were to be sold at that valuation the tax liability would amount approximately to £8,664,000 (2013: £4,424,000).

11. **Share capital**

	2014	2013
	£	£
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	23,619,739	1	764,591	24,384,331
Loss for the year	-	-	(87,255)	(87,255)
Realised in year	(156,732)	-	156,732	-
Revaluation surplus	21,559,906	-	-	21,559,906
Closing shareholders' funds	**45,022,913**	**1**	**834,068**	**45,856,982**

13. **Contingent liability**

At the year end the company had 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 had 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 2014 the total amount outstanding subject to these guarantees was £188,016,558 (2013: £188,016,558) 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 year end date was a liability of £96,801,411 (2013: £50,987,597).

At the year end the company had 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 was supported by a debenture and a charge over the company's investments. The total amount outstanding subject to the guarantee at 31 December 2014 was £36,600,462 (2013: £36,600,462).

Due to the refinancing undertaken after the balance sheet date as detailed in note 18, the above liabilities have been settled to the lender's satisfaction.

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.

14. **United Kingdom holding company**

At the year end the company was 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, Maindy, Cardiff, CF14 3UZ.

As part of the post balance sheet date refinancing detailed in note 18, the ownership of the company changed and it is now a wholly owned subsidiary of Dellmes GR Limited, a recently incorporated company, which is registered in England and Wales.

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 £149,968 (2013: £118,587) 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.

18. **Post balance sheet events**

Subsequent to the year end on 12 March 2015 the existing cross collateralised funding structure was refinanced. This existing debt comprised a bank loan facility of £200m, a bank loan facility of £50m, overdrawn current accounts and default interest accrued. In addition there were also interest rate and inflation swaps that on a combined basis were out of the money, which created additional liabilities as the swap contracts were cancelled on the refinancing date.

The new capital provided in March 2015, by a new third party funder, provided sufficient funds to enable the settlement of the overdraft and loan facilities, and the swap break liabilities that arose as a result of the termination of the swap contracts. A related party, Balemor GR Limited, provided financing to the borrower companies of the bank facility for the default interest.

The new financing was provided via the newly incorporated parent company, Dellmes GR Limited (see note 14) on a cross collateralised basis. These funds have in turn been advanced to the company to clear and replace the current balance disclosed in note 9 as amounts owed to parent company, with interest accruing at the same rate.

The investment properties of the company have been used to provide security against the new financing agreement, which totals £344,800,000, and the company is now part of a new cross collateralised facility group as a result.

The new facility is a 65 year facility and there are reserves in place to ensure that the necessary liquidity is retained in the structure so that funds are available to meet liabilities as they fall due. The new facility is therefore stable, long term funding and the companies have no other third party debt following this refinancing.