

LONG | HARBOUR |

Company No 06905581

LONG HARBOUR LTD

REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2014

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Long Harbour Ltd

**Report and Financial Statements
For the year ended 31 December 2014**

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Long Harbour Ltd

Report of the Directors

Directors

The Hon W W Astor

J S Aumonier

F J Sixt (resigned 21 November 2014)

P D Noble (resigned 31 December 2014)

Secretary and registered office

Gravitas Company Secretarial Services Ltd

One New Change, London EC4M 9AF

Company number

06905581

Auditor

Moore Stephens LLP

150 Aldersgate Street, London EC1A 4AB

The directors present their report together with the audited consolidated financial statements for the year ended 31 December 2014

Dividends

The directors do not recommend the payment of a dividend for the year (2013 £nil)

Directors' Indemnity Arrangements

As permitted by the Articles of Association, the directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial period and is currently in force.

Financial risk management policies

In common with many businesses, the group is exposed to a range of risks. The management of risk is embedded in the culture of the group and the way business is conducted. This is managed at an executive level through the board of directors and senior management. In order to mitigate risk, the group manages risk in a variety of ways depending on the nature of the risk and areas of potential impact. The key risks for the group include:

Liquidity risk

The director's approach to managing liquidity risk is to ensure, as far as possible, that the group will always have sufficient liquidity to meet its liabilities, when due under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the group's reputation.

Credit risk

Credit risk is the result of counterparty default exposure. The directors monitor the creditworthiness of the group's major counterparties, considered to be its underlying fund investors and joint venture partners.

Business continuity risk

As an investment and asset manager to the underlying fund platform, the company has an obligation to ensure it can operate at all times. Continuity plans are in place and periodically tested and off site back up for the group's IT systems is in place to cover loss of facility at our operating site, as part of the disaster recovery procedure.

Long Harbour Ltd

Report of the Directors (Continued)

Business risk

The group considers that its principal risk, to which the company is exposed, is termination of its underlying management agreements with its existing fund platform. The on-going monitoring of compliance in line with its obligation as a regulated firm mitigates this risk.

Directors' Confirmation

Each of the directors who are a director at the time when the report is approved confirms that

- (a) so far as each director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- (b) each director has taken all the steps that ought to have been taken as a director, including making appropriate enquires of fellow directors and the company's auditor for that purpose, in order to be aware of any information needed by the company's auditors in connection with preparing their report and to establish that the company's auditor are aware of that information.

Statement of Directors' Responsibilities

The directors are responsible for preparing the directors' report, strategic report and the financial statements in accordance with applicable law and regulations.

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

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- 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.

By Order of the Board



W W Astor
Director

17 April 2015

Long Harbour Ltd

Strategic Report

Principal Activities and Future Developments

The group's principal activity continued to be that of property acquisition, financing and investment for long dated high credit investments on UK residential property assets, ground rent management and acquisition, and source funding and management for residential affordable housing. The company is regulated and authorised for the conduct of business by the Financial Conduct Authority ("FCA") in the UK.

The directors expect to continue with the group's principal activity for the coming year and are pleased with the result for the year.

Business Review

The group's results for the year are shown on page 5.

Whilst the financial results have been important, one of the real successes of 2014 has been how Long Harbour, the company, has grown into a mature investment manager. With over 31 full time staff and consultants in London the business is now almost unrecognisable in look and feel from four years ago. This has been underpinned by some key hiring of experienced senior analysts and execution professionals which have helped bridge the gap between the founders and junior staff and have given a much broader ability to quickly analyse businesses and transactions and execute efficiently. Secondly it has been underpinned by the great work of senior management to provide Long Harbour with the rigorous investment framework and processes consistent with institutional investor's expectations.

The process over the year has also included a repositioning of our business into two core areas, Real Estate and (Asset backed) Private Equity. The Real Estate area comprises the long term investment and management of property assets for our pension fund and endowment clients. The Private Equity area comprises the investment and deal opportunities in infrastructure, renewables and leasing sectors where the focus continues to be that of building a strong operating platform to aggregate assets and make private equity returns by repositioning the assets and selling to long term institutional investors.

The group is continuing with its plans to launch an integrated fixed income platform which, under the direction of its experienced investment professionals, will offer a broad range of additional investment opportunities for our limited partners.

The directors consider the key risks and uncertainties facing the group for the current year to be the impact of market variables impacting the performance yields and asset valuations of the underlying managed assets.

The key performance indicators for the group are profitability, its net asset value, and its relationship with key investors and reputation in the market place. The directors are pleased with the profitability of the group measured by profit on ordinary activities before tax (see page 5) and the group's net asset position at the reporting date (see page 7). At the balance sheet date, the return on assets (profit after tax divided by net assets) is 1.2 x multiple (2013 0.3 x multiple).

By Order of the Board

W W Astor
Director

17 April 2014

Independent Auditor's Report to the Members of Long Harbour Ltd

We have audited the financial statements of Long Harbour Ltd for the year ended 31st December 2014 which are set out on pages 5 to 18. 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 explained more fully 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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the group's and parent company's affairs as at 31 December 2014 and of the group's profit 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.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report and the Strategic 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 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.

Timothy West, Senior Statutory Auditor
For and on behalf of Moore Stephens LLP, Statutory Auditor
150 Aldersgate Street
London
EC1A 4AB



23 April 2015

Long Harbour Ltd

Consolidated Profit and Loss Account
For the year ended 31 December 2014

	Note	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Turnover			
Continuing activities		8,747	4,925
Discontinued/acquired activities – Now ¹ Lettings Limited		414	502
	2	9,161	5,427
Cost of sales		(111)	(112)
Gross profit		9,050	5,315
Administrative expenses		(6,064)	(3,760)
Operating profit			
Continuing activities		3,091	1,612
Discontinued/acquired activities		(105)	(57)
		2,986	1,555
Profit on disposal of investment properties		7,520	2,987
Loss on disposal of investments		(49)	-
Income receivable and other income		-	5
Interest payable and similar charges		(537)	(1,707)
Profit on ordinary activities before taxation		9,920	2,840
Taxation	5	(948)	(228)
Profit on ordinary activities after taxation	14	8,972	2,612
Profit on ordinary activities after taxation attributable to			
Owners of the parent	15	3,211	943
Minority interest	15	5,761	1,669
		8,972	2,612

The notes on pages 9 to 18 form an integral part of these consolidated financial statements

Long Harbour Ltd

Consolidated Statement of Total Recognised Gains and Losses
For the year ended 31 December 2014

	<u>Note</u>	<u>Year ended</u> <u>31 December</u> <u>2014</u> £'000	<u>Year ended</u> <u>31 December</u> <u>2013</u> £'000
Profit for the year	14	8,972	2,612
Unrealised surplus on revaluation of properties		-	5,180
Total recognised gains and losses for the financial year		<u>8,972</u>	<u>7,792</u>

Separate disclosure of historical cost profit and loss has not been given in relation to investment properties as the directors consider that any depreciation charge on the investment properties would be immaterial

The notes on pages 9 to 18 form an integral part of these consolidated financial statements

LONG HARBOUR

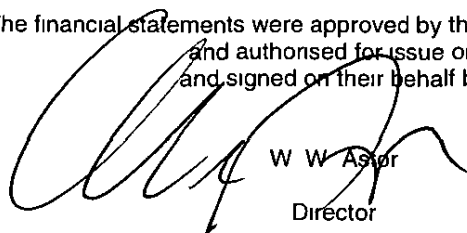
Long Harbour Ltd

Consolidated and Company Balance Sheet at 31 December 2014

Company Number. 06905581

	Note	2014		2013	
		Group £'000	Company £'000	Group £'000	Company £'000
Fixed Assets					
Goodwill	9	-	-	-	-
Tangible assets	6	149	149	183	174
Investment properties	7	1,009	-	29,864	-
Investments	8	91	92	2	3
		1,249	241	30,049	177
Current Assets					
Debtors	10	2,817	2,783	805	507
Cash at bank and in hand		5,826	3,180	7,066	875
		8,643	5,963	7,871	1,382
Creditors amounts falling due within one year	11	(2,414)	(2,166)	(9,209)	(555)
Net Current Assets/(Liabilities)		6,229	3,797	(1,338)	827
Total Assets less current Liabilities		7,478	4,038	28,711	1,004
Creditors amounts falling due after more than one year	12	-	-	(20,100)	-
Net Assets		7,478	4,038	8,611	1,004
Capital and Reserves					
Called up share capital	13	-	-	-	-
Revaluation reserve	14	-	-	-	-
Retained earnings	14	4,373	4,038	1,162	1,004
Shareholders' Funds	14	4,373	4,038	1,162	1,004
Minority interest	15	3,105	-	7,449	-
		7,478	4,038	8,611	1,004

The financial statements were approved by the Board of Directors
and authorised for issue on 17 April 2015
and signed on their behalf by


W W Astor
Director

The notes on pages 9 to 18 form an integral part of these consolidated financial statements

Long Harbour Ltd

Consolidated Cash Flow Statement
For the year ended 31 December 2014

	Note	31 December 2014		31 December 2013	
		£'000	£'000	£'000	£'000
Net cash flow from operating activities	16		(7)		3,472
Returns on investments and servicing of finance					
Interest paid		(537)		(1,707)	
Interest receivable		-		5	
Net cash outflow from returns on investment and servicing of finance			(537)		(1,702)
Distribution to minority interest			(4,522)		-
Capital expenditure and financial investment					
Purchase of tangible assets		(36)		(142)	
Purchase of investment properties		-		(33,667)	
Disposal of investment properties		30,792		12,570	
Proceeds from sale of investments		5		-	
Purchase of investments		(90)		(1)	
Net cash inflow/(outflow) from capital expenditure and financial investment			30,671		(21,240)
Acquisition and disposals					
Disposal of subsidiary (note 9)		(164)		-	
Acquisition of subsidiary		-		163	
			(164)		163
Cash inflow/(outflow) before financing			25,441		(19,307)
Taxation			(383)		(28)
Financing					
Loans introduced by limited partners		-		34,198	
Loans repaid to limited partners		(26,298)		(7,900)	
Cash (outflow)/inflow from financing			(26,298)		26,298
(Decrease)/Increase in cash			(1,240)		6,963
Reconciliation of Net Cash Flow to Movement in Net Debt					
Net debt / funds at 1 January 2014			(19,232)		103
(Decrease)/Increase in cash			(1,240)		6,963
Cash outflow/(inflow) from decrease in debt			26,298		(26,298)
Net funds/(debt) at 31 December 2014	17		5,826		(19,232)

Long Harbour Ltd

Financial Statements for the year ended 31 December 2014

Notes

1 Accounting Policies

(a) Basis of preparation

The financial statements have been prepared in accordance with applicable law and United Kingdom accounting standards (United Kingdom Generally Accepted Accounting Practice)

The financial statements have been prepared in GBP Sterling, the currency of the group's primary economic environment

(b) Basis of consolidation

The consolidated financial statements include the financial statements of Long Harbour and its subsidiaries for the year ended 31 December 2014

For subsidiaries that are consolidated in full, the results of the subsidiaries acquired or disposed of during the period are included in the consolidated profit and loss accounts from the effective date of acquisition or up to the effective date of disposal, as appropriate. The asset and liabilities of the subsidiaries are included in the group balance sheet at 31 December 2014

Where subsidiaries of the group are general partners of Limited Partnerships, rights to control, manage and conduct business of the Limited Partnership vest with the general partner in accordance with its partnership agreement and under the guidance of FRS 2, the accounting treatment is to consolidate in full, except where the group has severe long term restrictions, or applying a true and fair override based on the fact that the general partner has no significant economic benefit or risk other than a fixed management fee from directing the financial and operating policies of the subsidiaries. Under these circumstances, consolidation in full of assets and liabilities and results for the period ended is considered to be misleading, and would not reflect a true and fair view. The effect of this departure has been disclosed in note 8

(c) Turnover

Turnover represents property, investment advisory & management and asset management fees for the period for services rendered in accordance with terms of the signed agreement, exclusive of Value Added Tax. Turnover for the group also includes rental income receivable for the period on investment properties. Turnover is recognised over the period to which the service or rental relates

(d) Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation. Depreciation on the computer and office equipment is provided at between 20% and 33% per annum on a straight line basis in order to write off each asset over its expected useful life

(e) Investment properties

In accordance with SSAP 19, investment properties are revalued annually to open market value. The aggregate surplus or deficit arising on revaluation is transferred to the revaluation reserve except where a deficit is deemed to represent a permanent diminution in value, in which case it is charged to the profit and loss account

No depreciation is charged on investment properties. The directors consider that this accounting policy results in the financial statements giving a true and fair view. The effect of this departure from the requirements of the Companies Act concerning depreciation of investment property has not been quantified, because it is impracticable and, in the opinion of the directors, would be misleading

(f) Investments

Investments in subsidiaries are stated at cost less provision for impairment, if any. Subsidiary undertakings excluded from consolidation are treated as fixed asset investments

Long Harbour Ltd

Financial Statements for the year ended 31 December 2014

Notes (continued)

1 Accounting Policies (continued)

(g) Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the group's interest in the fair value of identifiable assets and liabilities of the subsidiary. Goodwill is recognised as an asset at cost and subsequently measured at cost less any accumulated impairment losses. Negative goodwill is recognised when the price paid for an acquisition is less than the fair value of its net assets. Negative goodwill arising in these circumstances is released to the profit and loss in the year of acquisition.

(h) Deferred Taxation

Full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computation. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets in the financial statements.

A net deferred tax asset is recognised only if it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse. Deferred tax assets and liabilities are not discounted.

(i) Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

2 Turnover

	<u>Year ended</u> <u>31 December</u> <u>2014</u> £'000	<u>Year ended</u> <u>31 December</u> <u>2013</u> £'000
Property, investment advisory & asset management fees	8,289	3,593
Rental income receivable	872	1,834
	<u>9,161</u>	<u>5,427</u>

Turnover is wholly attributable to the principal activity of the group and arises solely within the United Kingdom.

Long Harbour Ltd

Financial Statements for the year ended 31 December 2014

Notes (continued)

3 Operating Profit

	<u>Year ended</u> <u>31 December</u> <u>2013</u> £'000	<u>Year ended</u> <u>31 December</u> <u>2013</u> £'000
Operating profit is stated after charging		
Depreciation of owned fixed assets	68	51
Goodwill write off – Acquisition of Now! Lettings Limited	-	(221)
Auditors remuneration (Moore Stephens LLP unless indicated)		
- audit fees	20	12
- tax compliance fees	3	3
- other fees	3	3
- audit fees (other firms)	-	13
	<hr/>	<hr/>

4 Staff Costs

	<u>Year ended</u> <u>31 December</u> <u>2014</u> £'000	<u>Year ended</u> <u>31 December</u> <u>2013</u> £'000
Wages and salaries	3,612	1,973
Social security costs	462	245
	<hr/>	<hr/>
	4,074	2,218
	<hr/>	<hr/>

The average number of persons employed by the group (including the directors) during the period, analysed by category, was as follows

	<u>Year ended</u> <u>31 December</u> <u>2014</u> No	<u>Year ended</u> <u>to 31 December</u> <u>2013</u> No
Management	6	6
Administration and operations	25	24
	<hr/>	<hr/>
	31	30
	<hr/>	<hr/>
	<u>Year ended</u> <u>31 December</u> <u>2014</u> £'000	<u>Year ended</u> <u>31 December</u> <u>2013</u> £'000
Directors' emoluments	591	415
	<hr/>	<hr/>

No director received benefits under a money purchase pension scheme

Emoluments of the highest paid director in respect of qualifying services were £239,000 (2013 £155,000)

Long Harbour Ltd

Financial Statements for the year ended 31 December 2014

Notes (Continued)

5 Taxation

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
(a) Current tax charge		
UK Corporation tax charge	948	227
Under provision in previous years	-	1
	<u>948</u>	<u>228</u>
(b) Factors affecting the tax charge		
Profit on ordinary activities before tax	<u>9,920</u>	<u>2,840</u>
Expected tax charge of 21.5% (2013: 23%)	2,133	660
Effects of		
Depreciation in excess of capital allowances	4	(16)
Disallowable expenses	22	12
Tax liability prior to acquisition	-	(49)
Income not taxable	(141)	-
Profits not attributable to tax*	(1,094)	(331)
Utilisation of trading losses	24	(49)
Under provision in previous years	<u>-</u>	<u>1</u>
Total tax charge (note 5 a)	<u>948</u>	<u>228</u>

* Profits not attributable to tax include profits of Caspian 1 Limited Partnership and Caspian 2 Limited Partnership that are not subject to corporation tax

6 Tangible Assets

	Group 2014 £'000	Computer and Office Equipment Company 2014 £'000
Cost		
At 1 January 2014	292	223
Transfers	(23)	-
Additions	36	36
Disposal	<u>(46)</u>	<u>-</u>
At 31 December 2014	<u>259</u>	<u>259</u>
Depreciation		
At 1 January 2014	109	49
Transfers	(21)	-
Charge for the year	68	61
Disposal	<u>(46)</u>	<u>-</u>
At 31 December 2014	<u>110</u>	<u>110</u>
Net book value		
At 31 December 2014	<u>149</u>	<u>149</u>
At 31 December 2013	<u>183</u>	<u>174</u>

Long Harbour Ltd

Financial Statements for the year ended 31 December 2014

Notes (Continued)

7 Investment Properties

Residential Leasehold & Freehold Units

	<u>Group</u> <u>2014</u> £000	<u>Group</u> <u>2013</u> £000
<i>Cost and Valuation</i>		
At 1 January 2014	29,864	-
Additions	-	33,667
Disposals	(28,855)	(9,583)
Revaluation surplus	-	5,780
At 31 December 2014	<u>1,009</u>	<u>29,864</u>

The investment properties were valued by the directors as at 31 December 2014 based on open market value and after taking into consideration directors' valuation assessments. The historical cost of investment properties is £800,820 (2013 £24,084,000) at the balance sheet date.

8 Fixed Asset Investments

	<u>Group</u> <u>2014</u> £	<u>Company</u> <u>2014</u> £
Investment in subsidiaries and associates		
At 1 January 2014	2,020	3,121
Additions	90,000	90,000
Disposals	<u>(1,020)</u>	<u>(1,020)</u>
At 31 December 2014	<u>91,000</u>	<u>92,101</u>

The subsidiaries and associates at the balance sheet date were

<u>Name</u>	<u>Country of</u> <u>Incorporation</u> <u>or Registration</u>	<u>Proportion of</u> <u>Voting Rights</u> <u>and Ordinary</u> <u>Share Capital</u> <u>Held</u>	<u>Nature of Business</u>	<u>Accounting</u> <u>reference</u> <u>date</u>
Long Harbour (Caspian) Limited	UK	100%	Property investment	31/03
Caspian General Partner Limited	Guernsey	100%	Property investment	31/03
Caspian General Partner Limited	Isle of Man	100%	Property acquisition	31/03
LHIF General Partner Limited*	Guernsey	100%	Property investment	31/03
LH Income LLP	UK	33.3%	Property investment	30/06
Long Harbour Securities Limited	UK	100%	Dormant	31/12

* subsidiaries not consolidated (see note 1 (b))

Long Harbour Ltd

Financial Statements for the year ended 31 December 2014

Notes (Continued)

8 Fixed Asset Investments (continued)

The limited partnerships owned by the group's general partners are as follows

<u>Name</u>	<u>Country of Incorporation or Registration</u>	<u>Proportion of Voting Rights and Ordinary Share Capital Held</u>	<u>Nature of Business</u>	<u>Accounting reference date</u>
Caspian 1 Limited Partnership	Guernsey	100%	Property investment	31/03
Caspian 2 Limited Partnership	IOM	100%	Property acquisition	31/03
Long Harbour Income Fund Limited Partnership*	Guernsey	100%	Property investment	30/06

* Limited partnership not consolidated

On 15 March 2013, the group acquired a newly incorporated subsidiary, Caspian General Partner Limited (Guernsey), who in turn became the controlling party of Caspian 1 Limited Partnership, a new incorporated partnership in Guernsey, by means of its role of general partner. In addition, the group's subsidiary, Caspian General Partner Limited (Isle of Man) became the controlling party of Caspian 2 Limited Partnership, incorporated in Isle of Man, by means of its role as general partner. The group's third newly incorporated subsidiary, Long Harbour (Caspian) Limited, became a limited partner of Caspian 1 Limited Partnership (Guernsey), and in accordance with the partnership agreement is subject to a distribution equal to 17.5% of surplus cash receipts after a preferred return and repayment of all limited partners' capital contributions. Given the group has the ability to receive variable returns (surplus cash receipts) after the preferred return, and has an influence on varying those returns, all assets and liabilities of the partnerships, and the results for the period then ended, have been included in the group's consolidated balance sheet and consolidated profit and loss account and included within minority interest.

On 31 October 2014, Now Lettings Limited, a 100% owned subsidiary of Caspian General Partner Limited (IOM), was sold for a consideration of £1 (note 9).

On 25 June 2013, the group acquired a newly incorporated subsidiary, LHIF General Partner Limited, who in turn became the controlling party of Long Harbour Income Fund Limited Partnership, by means of its role of general partner. Since the group's interest is limited to a profit share of £5,000 per annum and investment management fees, which are based on set amounts, being market rates, found within the investment management agreement, the assets and liabilities of the partnership, and the results for the period then ended, have not been included in the group's consolidated balance sheet and consolidated profit and loss account. The effect of this departure on profit for the period and net assets after minority interests is £5,000 (2013: £Nil). The consolidated capital and reserves and consolidated profit and loss of LHIF General Partner Limited and Long Harbour Income Fund Limited Partnership for the period ended 31 December 2014 is £56,324,000 (2013: £12,898,000) and £282,000 loss (2013: £52,000 profit) respectively.

On 2 December 2014, the group acquired a 33.3% legal interest in LH Income LLP ("LLP"), a limited liability partnership incorporated in the United Kingdom and held on bare trust since its incorporation by William Astor and James Aumonier, directors of the company. LH Income LLP holds the carry interest of the underlying fund, and has not been consolidated on grounds that the group has significant influence, but not control. Distributions by the LLP are made only under unanimous approval from all designated members, and any carried interest to the members falls due when there is a distribution event in the underlying investment of the LLP.

The group's subsidiary, Atlantic Regeneration Property 1 General Partner 1 Limited, is the controlling party of Atlantic Regeneration Property 1 Limited Partnership ("ARP1 LP"), by means of its role of general partner. Since the group's interest is limited to a profit share of £5,000 per annum and investment advisory fees, which are based on set amounts, being market rates, found within the investment advisory agreement, the assets and liabilities of the partnership, and the results for the period then ended, have not been included in the group's consolidated balance sheet and consolidated profit and loss account. During the year, ARP1 LP was transferred out of the group.

Long Harbour Ltd

Financial Statements for the year ended 31 December 2014

Notes (Continued)

9 Goodwill and acquisition

On 15 March 2013, the group acquired Now! Lettings Limited, a company incorporated in the UK. Negative goodwill arising on the acquisition totalling £211,000 was written off to the profit and loss account in 2013.

On 31 October 2014, the group disposed of Now! Lettings Limited. The fair value of assets and liabilities disposed were as follows:

	<u>Now! Lettings Limited</u> £'000
Fixed assets	2
Debtors	53
Cash at bank	164
Creditors	<u>(167)</u>
Net asset value disposed	<u>53</u>
Consideration	-
Less: fair value of assets disposed	<u>(53)</u>
Loss on disposal	<u>(53)</u>

10 Debtors

	Group 2014 £'000	Company 2014 £'000	Group 2013 £'000	Company 2013 £'000
Trade debtors	2,422	2,400	166	42
Amounts due from related undertakings	-	-	31	31
Other debtors	287	286	302	237
Prepayments and accrued income	<u>108</u>	<u>97</u>	<u>306</u>	<u>197</u>
	<u>2,817</u>	<u>2,783</u>	<u>805</u>	<u>507</u>

Included in other debtors is £25,994 (2013: £25,994) relating to a rental deposit which is due in more than one year.

Long Harbour Ltd

Financial Statements for the year ended 31 December 2014

Notes (Continued)

11 Creditors amounts falling due within one year

	Group 2014 £'000	Company 2014 £'000	Group 2013 £'000	Company 2013 £'000
Trade creditors	75	53	209	48
Amounts due to group undertakings	-	171	-	-
Amounts due to related undertakings	-	-	6,198	-
Corporation tax	841	577	276	231
Other creditors	954	935	674	255
Accruals and deferred income	544	430	1,852	21
	<u>2,414</u>	<u>2,166</u>	<u>9,209</u>	<u>555</u>

Amounts due to related undertakings relate to a loan of £Nil (2013 £6,198,000) provided to Caspian 1 Limited Partnership by its limited partner. The loan was unsecured, interest free and was repaid in full during the year.

12 Creditors amounts falling due after more than one year

	Group 2014 £'000	Group 2013 £'000
Amounts due to related undertakings	-	20,100

Amounts due to related undertakings relate to a mezzanine loan of £28,000,000 provided to Caspian 1 Limited Partnership by its limited partner. The mezzanine loan bears interest at 8% per annum and is repayable by 14 March 2023 or on dissolution of the partnership, if earlier. During the year, £21,900,000 (2013 £7,100,000) was repaid reflecting the nil balance at 31 December 2014.

13 Share Capital

	Company 2014 £	Company 2013 £
Allotted, issued and fully paid 200 (2013 200) ordinary shares of £1 each	<u>200</u>	<u>200</u>

Long Harbour Ltd

Financial Statements for the year ended 31 December 2014

Notes (Continued)

14 Reconciliation of Movements in Shareholders' Funds

	<u>Share Capital</u> £'000	<u>Revaluation Reserve</u> £'000	<u>Retained Earnings</u> £'000	<u>Group Total</u> £'000	<u>Company Total</u> £'000
At 1 January 2014	-	-	1,162	1,162	1,004
Revaluation (note 7)	-	(5,583)	-	(5,583)	-
Profit for the year	-	-	8,972	8,972	3,034
Minority interest	-	5,583	(5,761)	(178)	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2014	-	-	4,373	4,373	4,038

The group has taken advantage of the exemption available within section 408 of the Companies Act 2006 not to disclose the company profit and loss account. Profit for the year ended 31 December 2014 for the company was £3,034,000 (2013 £785,000)

15 Minority Interest

	<u>Revaluation Reserve</u> £'000	<u>Retained Earnings</u> £'000	<u>Total</u> £'000	<u>Attributable to owners of parent</u> £'000	<u>Minority Interest</u> £'000
At 1 January 2014	5,780	2,831	8,611	1,162	7,449
Revaluation release	(5,583)	-	(5,583)	-	(5,583)
Profit for the year	-	8,972	8,972	3,211	5,761
Distribution	-	(4,522)	(4,522)	-	(4,522)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2014	197	7,309	7,478	4,373	3,105

16 Reconciliation of Operating Profit to Net Cash (outflow)/inflow from Operating Activities

	<u>Group 2014</u> £'000	<u>Group 2013</u> £'000
Operating profit	2,986	1,555
Depreciation	68	51
Negative goodwill written back	-	(211)
Increase in debtors	(2,065)	(430)
(Decrease) / Increase in creditors	(996)	2,507
	<hr/>	<hr/>
Net cash flow from operating activities	(7)	3,472

Long Harbour Ltd

Financial Statements for the year ended 31 December 2014

Notes (Continued)

17 Analysis of Net Debt

	At 1 January 2014 £'000	Cash flow £'000	At 31 December 2014 £'000
Cash at bank and in hand	7,066	(1,240)	5,826
	7,066	(1,240)	5,826
Amounts due to related undertakings			
Due within one year	(6,198)	6,198	-
Due after one year	(20,100)	20,100	-
Total	(19,232)	25,058	5,826

18 Related Party Transactions

During the year, the company charged property management fees of £100,000 (2013 £100,000) to Atlantic Regeneration Property 1 Limited Partnership ("partnership"), of which the company's subsidiary, Atlantic Regeneration Property 1 General Partner Limited, was the general partner. The company charged advisory fees amounting to £565,000 (2013 £576,000) to Atlantic Property Management Limited, a company incorporated in British Virgin Islands, and a shareholder of the company.

During the year, the company charged asset and investment management fees of £949,000 (2013 £2,616,000) to Adriatic Limited Partnership, a partnership incorporated in Guernsey, and of which two of the directors and shareholders have an influence in. The company is owed £2,000,000 (2013 £Nil) by Adriatic Limited Partnership at the year end.

During the year, the company charged management, rent and service fees amounting to £230,000 (2013 £159,000) to Homeground Management Limited, a company incorporated in the UK, and of which two of the directors and shareholders have an influence in. The company is owed £230,000 (2013 £164,000) by Homeground Management Limited at the year end.

The Company has taken advantage of the exemption available to under FRS8 from disclosure of transactions between group companies.

19 Operating Lease Commitment

	Group 2014 £'000	Group 2013 £'000
At 31 December 2014 the group and company had annual commitments under non-cancellable operating leases relating to land and buildings which expire		
Within two to five years	178	178

20 Ultimate Controlling Party

In the opinion of the directors, there is no one ultimate controlling party.

Pillar 3 Disclosure in respect of Long Harbour Ltd – year ended 31 December 2014

Long Harbour Ltd (“Long Harbour” or the “Company”) is authorised and regulated by the Financial Conduct Authority (“FCA”) and is subject to mandatory minimum regulatory capital requirements

On 1 January 2014 the new Capital Requirements Directive and Regulation (“CRD IV”) took effect in the United Kingdom. According to its business model, in 2014 Long Harbour changed its permissions and as a result is no longer categorised as an ‘investment firm’ and is no longer subject to CRD IV

As such the Firm is subject to CRD III and prudentially categorised as a BIPRU firm

Then following the implementation of the Alternative Investment Fund Managers Directive (‘AIFMD’) in the UK, on 20 October 2014 Long Harbour became authorised as a full scope UK AIFM and has since been prudentially categorised as a Collective Portfolio Management Investment firm (‘CPMI’), which is a BIPRU firm

As a result, the Firm is subject to the prudential requirements of IPRU(INV) 11 for its AIFMD business in parallel with the applicable rules in GENPRU and BIPRU

The prudential framework implemented by the Capital Requirements Directive in Europe consists of three ‘Pillars’

- Pillar 1 sets out the minimum capital requirement calculated for the firm’s credit and market risk components,
- Pillar 2 requires the firm to assess whether its Pillar 1 capital is adequate and to evaluate the impact that any other risk types may have on the Firm’s capital requirement, and
- Pillar 3 requires disclosure of specific information about the firm’s risk management controls, capital adequacy and remuneration

This Pillar 3 disclosure, as at 31 December 2014, has been prepared in accordance with the disclosure requirements of BIPRU 11 as applicable to the Company in its capacity as a BIPRU firm

BIPRU 11 permits a firm to omit one or more of the required disclosures where it believes that the information is immaterial. For this purpose, the Company will regard information as material if its omission or misstatement would change or influence the assessment or decision of a user relying on that information for the purpose of making an economic decision. The directors are not aware of any omissions

These disclosures have been produced solely for the purposes of Pillar 3. They do not form part of any audited financial statements, report or advice. The disclosures have been reviewed by the Board

Background

The Company is majority owned by the two founding managing partners. Since February 2012, an associate company of Hutchison Whampoa Ltd ("HWL"), has held a minority interest. The Company's principal activity is that of investment and asset manager of long dated high credit quality UK residential property, ground rents and real estate assets including residential affordable housing and other social infrastructure. Part of the company's activity is carried on as an AIFM managing a master-feeder AIF domiciled in Guernsey.

Long Harbour holds majority interests in a number of subsidiary entities. For accounting purposes, the Company's underlying subsidiaries are consolidated in full, unless there is no ability to control the financial and operating policies of the subsidiary or severe long term restrictions hinder the parent's rights over the assets and management of the subsidiary. The Company does not consolidate for prudential purposes according to the FCA rules in BIPRU 8.

Risk management framework***Governance structure***

The Company is overall managed by its Board of Directors who determine the Company's business plan, strategy and risk appetite and oversee the day-to-day management of the Company's business by the executive team led by the founder managing partners. The Board is also responsible for establishing and maintaining the Company's governance arrangements along with designing and implementing an effective risk management framework to identify, monitor and mitigate the risks that the business faces. The Directors determine how risks are assessed, recorded and mitigated and on an on-going basis the arrangements required to manage those risks. The Directors meet periodically and discuss current projections for profitability, cash flow, regulatory capital management, business planning and risk management.

In addition, specifically for the purpose of managing and mitigating risk within the AIF, according to the regulatory requirements applicable to the AIFM investment management activities as prescribed in the Investment Fund Sourcebook ('FUND'), the Company has established a Risk Management function for the risk management of the AIF to be carried on independently from the portfolio management activities.

Risk management systems and techniques

At least annually the Directors formally review the Company's risk matrix, risk controls and other risk mitigation arrangements and assess their effectiveness. Where the Directors identify material risks, they consider the financial impact that those risks may have on the Company.

As required according to GENPRU 1.2 and the Pillar 2 rule, the Firm maintains an Internal Capital Adequacy Assessment Process document ('ICAAP') to establish whether the Firm is required to hold any additional capital to cover any risks the Firm is exposed to which are not fully captured under the Pillar 1 requirements. The ICAAP is reviewed annually.

Material Risks

Market risk arises from adverse changes to the values of positions and portfolios arising from changes in market prices, interest rates or exchange rates. Market risk for the Company is minimal as the Company does not undertake any principal trading for its own account.

Credit risk is the risk of financial loss arising from a client or other counterparty failing to meet its obligations to repay outstanding amounts as they fall due. Credit risk for the Company is calculated as a percentage of trade receivables, as at 31 December 2014. There is no impaired asset for which any specific credit risk provision has been raised.

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems or from external events. The Company regularly undertakes risk assessments of all key areas of its business to identify the key risks it faces, along with the quality of related controls. These risks are monitored on an on-going basis to ensure that the business tracks how they are evolving over real time. The Company also monitors all losses and potential losses with view to ensuring that policies, procedures and controls are appropriate, and enhanced where necessary, in order to minimise repetition. Operational risk is materially avoided and where necessary mitigated by ensuring that clear lines of management responsibility and accountability are established for each business area with open access to senior management, that potential conflicts of interest are identified and avoided where practicable and where present are managed on a transparent basis with appropriate disclosure and approval by affected parties, and by the Company not holding any client assets. In accordance with the ICAAP, the FOR is used as a proxy for determining operational risk.

Business risk is the risk of financial loss arising from deterioration in business or economic conditions requiring a firm to raise capital or alternatively to contract its business when market conditions are most unfavourable to raising capital. At 31 December 2014, deterioration in business or economic conditions would not cause a significant impact to the capital resources currently held by the firm for the foreseeable future. This assessment is periodically reviewed and as at 31 December 2014, £20,000 has been allocated as a capital buffer.

Business continuity risk is managed proactively by an extensive back up network and offsite continuity services.

Regulatory capital

As a CPMI firm, the Company is required to hold own funds in excess of the following

The higher of

- the Funds under management requirement (of its AIFs), i.e., €125,000 plus 0.02% of the amount by which the funds under management exceed €250,000,000, (subject to a maximum of €10,000,000), and
- the fixed overheads requirement ('FOR'), i.e., one quarter of the annual fixed overheads

Plus, to cover professional liability risks, either

- additional own funds equal to 0.01% of the value of the AIFs managed, or
- professional indemnity insurance (PII) cover meeting certain criteria (and for which any excess is to be held in addition to the own funds requirement)

The Company has decided to cover professional liability risks by holding appropriate PII cover, and as such holds additional own funds equal to the value of the excess in the PII policy

As a BIPRU firm, the Company is also required to hold in parallel regulatory capital which will be the highest of

- its base capital requirement of €50,000, or
- the sum of its market and credit risk requirements, or
- its Fixed Overhead Requirement

The relevant calculations of capital adequacy as at 31 December 2014 are shown below

Calculations for a CPMI firm under IPRU (INV) 11

	£000
Own funds (permanent share capital and retained earnings)	£4,038
Own funds requirement	
The highest of	
1 Base own funds requirement (€125)	£97
2 Funds under management requirement	-
3 Fixed overheads requirement,	£789
plus either	
4 Professional negligence capital requirement, or	-
5 PII capital requirement	£20
Total own funds requirement	£809
Surplus	£3,229

Under IPRU(INV) 11, as at 31 December 2014, the Company was subject to a Fixed Overhead Requirement and was required to hold additional own funds to cover a defined PII excess. The surplus of own funds held as a CPMI was £3,229,000. The Company held liquid assets in excess of the total own funds requirement.

Calculations for a BIPRU firm under BIPRU/GENPRU

	£000
Total Regulatory Capital after deductions	£4,038
Capital requirement	
The highest of	
1 Market risk + Credit risk	£293
2 Fixed Overheads Requirement	£789
3 Base Capital Resource Requirement	£97
plus	
4 Pillar 2 capital	£20
Total capital requirement	£809
Surplus	£3,229

Under BIPRU and GENPRU, as at 31 December 2014, the Company was subject to a Pillar 1 capital requirement determined by its Fixed Overhead Requirement. In addition the Company held Pillar 2 capital of £20,000. The surplus of regulatory capital held as a BIPRU firm was £3,229,000.

As a CPMI, which is a BIPRU firm, the Company maintains sufficient capital to meet both its own funds requirements under IPRU(INV) 11 and capital resources requirements in BIPRU (and GENPRU).

Remuneration Code disclosure

This disclosure is being made by the Company in its capacity as a BIPRU firm in accordance with the Pillar 3 disclosure requirements as set out in BIPRU 11.5.18. The disclosure is made as at 31 December 2014 as required by the Remuneration Code that came into force on 1 January 2011. The Company is subject to the UK Remuneration Code in SYSC 19B as implemented for a CPMI which is a BIPRU firm and the relevant proportionality guidance as applicable.

The Company is obliged to disclose certain information regarding its remuneration policies and procedures for individuals ('AIFM Remuneration Code Staff') whose professional activities have a material impact on the risk profile of the Company or of the AIF managed. This includes senior management, risk takers, control functions, and any employees receiving total remuneration that takes them into the same remuneration bracket as senior management and risk takers.

A senior manager is defined as an individual employed by the firm to whom the governing body (or a member of the governing body) of the firm has given responsibility for management and supervision, and who reports directly to the governing body, a member of the governing body, the chief executive, or the head of a significant business group.

Under the AIFM Remuneration Code and the proportionality guidance this remuneration disclosure is considered to be appropriate, given the Company's prudential category, size and nature of its activities.

The Company has established and maintains remuneration policies, procedures and practices that are consistent with and promote effective risk management and prevent exposure to excessive risk.

Due to the size, nature and complexity of the business, the Company has established a Remuneration Committee which comprises the Board of Directors of the Company. The Committee meets annually to determine the remuneration of directors, senior management and employees of the Company.

Remuneration is made up of fixed salary pay and a discretionary bonus at the end of the financial year based on firstly, the individual's performance and secondly, the profitability of the Company

The Company is currently approving long-term incentives for senior management which are designed to link reward with the long-term success of the Company and recognise the responsibility participants have in driving its future success and delivering value for all stakeholders

Seven individuals were classified as Code Staff Aggregate remuneration expenditure in respect of AIFM Remuneration Code staff for the year ended 31 December 2014 was £2,330,000 (2013 £1,085,000), of which £880,000 (£715,000 senior management and £165,000 other code staff) was fixed and £1,450,000 (£575,000 senior management and £875,000 other code staff) was variable