

Registration number: 09897743

# Covent Garden Group Holdings Limited

Annual Report and Consolidated Financial Statements

for the Year Ended 31 December 2017

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## **Covent Garden Group Holdings Limited**

### **Strategic Report for the year ended 31 December 2017**

The Directors present their strategic report for Covent Garden Group Holdings Limited (“the Group”) for the year ended 31 December 2017.

#### **Operating review**

Covent Garden is a world class retail and dining destination providing over 1.1 million square feet of lettable space across all uses in the heart of London’s West End. Underpinned by a vision to establish the estate as a leading destination for Londoners and visitors to the Capital, Covent Garden drives value creation through asset management, strategic investment and creativity. The estate is home to a wide variety of British, global and independent brands including Kent & Curwen, Petersham Nurseries and Tom Ford.

Demand for space in this iconic setting continues to be positive, highlighted by the 21 new brands introduced this year. 90 leasing transactions including new leases and renewals were completed, representing £14.6 million of rental income per annum transacted at 10.4 per cent above 31 December 2016 estimated rental value (ERV). A new Zone A rent of £750 per square foot for the Market Building was achieved during the year. Net rental income for the year was £48.9 million, up 11.3 per cent like-for-like compared to 2016. Occupancy on the estate remains high at 98 per cent.

2017 was another active year for Covent Garden as the business continued to implement its leasing and investment strategy. The value of the estate increased by 4.3 per cent on a like-for-like basis to over £2.5 billion. ERV is £104.8 million, a like-for-like increase over the year of 4.6 per cent.

The Group continues to work closely with the community stakeholders including Westminster City Council (“WCC”) and the Covent Garden Area Trust (“CGAT”) to maintain and celebrate the attributes which make the area unique.

#### **Retail**

Strong demand for space at Covent Garden from retailers continues with new rental tones being set. The repositioning of Floral Street as a fashion and lifestyle destination is underway. British heritage sportswear brand, Kent & Curwen, opened its first concept store under the partnership of creative director Daniel Kearns and business partner David Beckham at 12 Floral Street. In addition, multi-brand concept store, The Shop at Bluebird, has been signed to Carriage Hall. The store has 15,000 square foot of space, housing two dedicated retail floors and a restaurant.

In July 2017, Petersham Nurseries opened its retail space, offering handpicked collections of homeware, furniture and gifts. The store is set in the Grade II listed building within the Floral Court development beneath three Victorian atria and surrounded by greenery.

## **Covent Garden Group Holdings Limited**

### **Strategic Report for the year ended 31 December 2017**

The successful transformation of Henrietta Street has established a new menswear and dining destination in London. British men's shoe brand Cheaney and outerwear clothing concept K-Way opened stores at the beginning of 2017. Australian eyewear brand, Bailey Nelson, opened its only UK store on Henrietta Street in September offering high quality opticals and sunglasses. The store complements the existing community of independent, British and global brands, representing the finest aspects of men's retail, alongside high quality dining concepts on the street.

Over 25 standalone beauty and fragrance boutiques form 'The Beauty Quarter' at Covent Garden which continues to expand. Tom Ford and Deciem opened in the Market Building joining premium standalone beauty boutiques from Chanel and Dior. Floral Street Fragrance opened in Floral Court, where customers can create their own four-piece fragrance in store. The Group has further strengthened the offering of gifting and premium accessories at the Royal Opera House Arcade signing leading travel accessory brand Tumi. This exciting addition joins the line-up of premium retailers which opened this year including luxury sunglasses brand Linda Farrow, British cashmere brand N.Peal and eyewear brand, Tom Davies.

#### **Dining**

Focusing on high quality and unique food concepts has been core to the dining strategy for Covent Garden. The restaurant leasing activity in 2017 further strengthened Covent Garden's reputation as one of London's best dining destinations. The latest signing on James Street is a UK first, Wahlburgers, the casual dining burger restaurant and bar, offering a menu of high-quality homemade burgers and sandwiches, fresh salads and shakes at competitive prices. The signing sets a new rental tone for food and beverage on James Street and is expected to open towards the end of 2018. The Experimental Group opened their latest concept in London on Henrietta Street at The Henrietta Hotel. The concept includes a bar and restaurant offering a French seasonal menu as well as an 18-bedroom boutique hotel. Another successful addition to Henrietta Street is the highly rated seafood restaurant The Oystermen which provides a relaxed, affordable and fun dining experience offering oysters and seafood from the British Isles. Cora Pearl, a new 60 cover restaurant from the team behind renowned Mayfair establishment Kitty Fishers, is expected to open in summer 2018 within the ground and lower-ground floors of 30 Henrietta Street. Pancs have joined the Market Building, offering handcrafted pancakes, and the estate has welcomed another UK first, Avobar, London's first permanent avocado bar that will serve avocado based dishes. Egg'cellent serving a breakfast only menu using fresh and organic eggs will open in summer 2018. These signings are in line with the strategy at Covent Garden to introduce high quality and original concepts to the estate.

Adding to the leisure offering is Z Hotels which has taken space on Bedford Street and will provide compact yet luxurious accommodation for visitors and is set to open in July 2018. In addition, the Group has completed assembly of the Wellington block, which is a scarce island site in central London, through the acquisition of the last remaining unit, 23 Wellington Street in 2018. Development of the Wellington block presents a unique opportunity to continue Covent Garden's transformation on the southern side of the estate.

## **Covent Garden Group Holdings Limited**

### **Strategic Report for the year ended 31 December 2017**

#### **Other uses**

Covent Garden has become an attractive office location for professional services, creative industries and SMEs. Office space represents 11 per cent of the portfolio by value. A number of office lettings have been achieved successfully during 2017 and we continue to see strong interest from occupiers. The Group continues to restore the estate's residential heritage. The most recent conversion at 26-27 Southampton Street, a premium residential development with 10 apartments, completed earlier this year and units were successfully let in line with expectations. The final two units at The Beecham, a luxury development overlooking the Piazza, were sold in the first half of 2017. The average sales price achieved across the scheme was £2,800 per square foot. Leasing demand for residential accommodation across the estate remains positive with a high rate of renewals recorded.

#### **Acquisitions**

The Group has continued to expand its presence on the estate through strategic acquisitions. During 2017, three new properties were acquired on Floral Street and Long Acre for a total consideration of £99.2 million (including purchaser's costs) and represent £4.7 million of ERV.

The acquisition of the long leasehold interest in 15-17 Long Acre & 27b Floral Street for £85.8 million (including purchaser's costs) further consolidates the Group's presence on Floral Street. This prominent property, located at the western end of Floral Street, opposite the Floral Court development, benefits from dual frontage on both Floral Street and Long Acre and presents long-term asset management opportunities.

37 and 39 Floral Street were acquired for £5.9 million and £7.5 million respectively. Both properties are well-located at key access points to Floral Street and are well-placed to benefit from the repositioning of this strategic street.

#### **Developments**

Floral Court will provide over 85,000 square foot net internal area (NIA) of space with eight retail and two restaurant units as well as 45 apartments. The development of the commercial space completed in 2018. A new connecting courtyard between Floral Street and King Street was opened in Spring 2018 which transforms the pedestrian flow on the estate. 65 per cent of the commercial space has been let representing £2.4 million of income. Development of the 45 apartments is progressing well and is set to complete by mid-2018.

At Carriage Hall, the refurbishment of 15,000 square feet (NIA) successfully completed and has been let to The Shop at Bluebird which opened in Spring 2018.

The redevelopment of 11-12 Floral Street, the building formerly occupied by The Sanctuary, nears completion providing 27,000 square feet (NIA) and includes the creation of two new retail units with flagship potential, one of which has been let to British heritage sportswear brand Kent & Curwen.

The development of Opera Terrace completed during 2017. SushiSamba is currently fitting out the space.

## **Covent Garden Group Holdings Limited**

### **Strategic Report for the year ended 31 December 2017**

#### **Future priorities**

The Group continues to implement its strategy for Covent Garden by focusing on creative asset management and investment, and attracting excellent retail brands and dining concepts to the estate. By introducing an interesting mix of British, global and independent brands to address the needs of the consumer, the Group aims to continue to capture the reversionary income potential of the portfolio and achieve ERV growth towards a target of £125 million by December 2020.

The Group is focused on making strategic investments to expand its ownership of the estate and enhancing the customer environment through creative asset management. As current capital initiatives including the Floral Court development near completion, the positioning of Floral Street as a fashion and lifestyle destination is an important priority.

Pedestrianisation of King Street and the completion of Floral Court will continue to change the pedestrian flow on the estate, allowing for further repositioning opportunities. In addition, the southern side of the estate offers opportunities for repositioning including the Wellington block.

Building on the successful openings in 2017 including The Henrietta Hotel, The Oystermen, Tom Ford and Petersham Nurseries, 2018 will see even more retail and dining openings across the estate with brands such as SushiSamba, Mariage Frères, Wahlburgers and Cora Pearl which are expected to further strengthen the estate's attractiveness as a leading retail and dining destination.

#### **Principal risks and uncertainties**

The Directors believe the principal risks and uncertainties that face the Group are not materially different to those disclosed in the Group Annual Report & Accounts of Capital & Counties Properties PLC for the year ended 31 December 2017 that are publicly available and in which the Group is consolidated. Given the straightforward nature of the business, the Group's Directors are of the opinion that analysis using KPIs is not necessary for an understanding of its development performance or position.

#### **Financial review**

The Group's results for and financial position at the year ended 31 December 2017 are set out in full in the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated statement of cash flows and the related notes.

The Group has ended 2017 with a strong balance sheet - an unsecured debt model, low leverage and £540 million of available liquidity. The valuation of Covent Garden has risen by 4.3 per cent (like-for-like) to £2.5 billion, driven by like-for-like ERV growth of 4.6 per cent achieved over the year. The equivalent yield remains broadly unchanged, reflecting the valuer's current view of the strength of demand for prime central London real estate.

Net assets at 31 December 2017 were £130.5 million (2016: £40.7 million).

The market value of the Group's property portfolio increased by £270.6 million during the year to £2,545.4 million, a 4.3 per cent gain on a like-for-like basis compared with the IPD Total Return index for the equivalent period of 11.2 per cent.

## Covent Garden Group Holdings Limited

### Strategic Report for the year ended 31 December 2017

Property acquisitions in the year totalled £99.2 million. Disposals in the year totalled £10.0 million which consisted of the continued disposal of residential apartments at The Beecham and the disposal of 7A/8 Floral Street.

The gearing measure most widely used in the industry is loan-to-value ("LTV"). LTV or debt to assets ratio is calculated on the basis of net debt divided by the carrying value of the Group's property portfolio. The LTV of 28.7 per cent (2016: 30.2 per cent) remains comfortably within the Group's target limit of no more than 40 per cent.

The Group's policy is to substantially eliminate the medium and long-term risk arising from interest rate volatility. The Group's banking facilities are arranged on a floating rate basis, but swapped to fixed rate or capped using derivative contracts. At 31 December 2017 the proportion of gross debt with interest rate protection was 100 per cent (2016: 100 per cent). The Group remains compliant with all of its debt covenants.

On 24 May 2018 Capital & Counties Properties PLC announced that it is considering a demerger, which would result in two separately-listed businesses based around its prime central London estates. Should a demerger be pursued this may result in a change in the ultimate parent undertaking of the Company.

Approved by the Board on 29/06/18 and signed on its behalf by:



T G Attree  
Director

Date: 29/06/2018

## **Covent Garden Group Holdings Limited**

### **Directors' Report for the year ended 31 December 2017**

The Directors present their report and the consolidated financial statements for the year ended 31 December 2017.

#### **Incorporation**

Covent Garden Group Holdings Limited ('the Company') was incorporated and registered in England and Wales on 2 December 2015 (Company registration number 09897743).

#### **Financial review**

Details of the Company's results for and financial position at the period ended 31 December 2017 are set out in the Financial Review section of the Strategic Report. Future developments for the Company and Group are also set out in the Strategic Report.

#### **Directors of the Company**

The Directors of the Company who held office during the year up to the date of signing the financial statements are given below:

T G Attree

I D Hawksworth

S S Jobanputra

M V A McGrath

G J Yardley

#### **Articles of Association**

Changes to the Articles of Association must be approved by the shareholders in accordance with the Companies Act 2006.

#### **Property portfolio**

Details of the movements in investment, development and trading property are set out in note 10.

#### **Dividends**

The Directors do not recommend a final dividend for the period (2016: £nil).

#### **Capital structure**

Details of share capital are set out in note 22.

#### **Use of financial instruments**

Information on risk management objectives and policies, including hedging policies, and exposure of the Group in relation to the use of financial instruments are set out in note 20.

#### **Change of control provisions**

There are a number of agreements which take effect, alter or terminate upon a change of control of the Group. The agreements that would be considered significant are the £705 million revolving credit facility and the £550 million loan notes issued pursuant to the Private Placements.

## Covent Garden Group Holdings Limited

### Directors' Report for the year ended 31 December 2017

#### Going concern

At 31 December 2017 the Group's cash and undrawn committed facilities were £540 million and its capital commitments were £19.5 million. The weighted average debt maturity exceeds 7 years, LTV is 28.7 per cent and there is sufficient headroom against all financial covenants. A risk the Group faces is that fellow Group undertakings may request settlement of balances owed by the Group. In this regard, the Directors have considered the level of financial support including that which may be made available to the Group by the ultimate parent company, Capital & Counties Properties PLC. The Directors have assessed the financial information contained in the 2017 Annual Report & Accounts of Capital & Counties Properties PLC that have been prepared on a going concern basis. The Directors have concluded from their assessment that there is a reasonable expectation that the Group will have adequate support to meet ongoing and future commitment for a period of at least 12 months from the date of approval of the financial statements. Accordingly, the Directors have prepared the 2017 Annual Report & Consolidated Financial statements on a going concern basis.

#### Events after reporting period

On 24 May 2018 Capital & Counties Properties PLC announced that it is considering a demerger, which would result in two separately-listed businesses based around its prime central London estates. Should a demerger be pursued this may result in a change in the ultimate parent undertaking of the Company.

#### Directors' indemnity

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 year and is currently in force. The Company's ultimate parent company also purchased and maintained throughout the last financial year Directors' and Officers' liability insurance in respect of itself and its Directors.

#### Disclosure of information to the auditor

Each Director has taken steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. The Directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

#### Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic Report, 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 period. Under that law the Directors have elected to prepare the Group financial statements and Parent Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the Group and Parent Company financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of the profit or loss of the Group and Parent Company for that period. In preparing these financial statements, the Directors are required to:



## Covent Garden Group Holdings Limited

### Directors' Report for the year ended 31 December 2017

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union 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 Group and Parent Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Parent Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and as regards the Group financial statements, Article 4 of the IAS Regulation.

The Directors are also responsible for safeguarding the assets of the Group and Parent Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.


Each of the Directors, confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group;
- the Directors' Report contained herein includes a fair review of the development and performance of the business and the position of the Group; and
- having taken all matters considered by the Board and brought to the attention of the Board during the year into account, the Directors consider that the financial statements, taken as a whole, are fair, balanced and understandable. The Directors believe that the disclosures set out in the financial statements provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

#### Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office. Under the provisions of the Companies Act 2006, the Company is not required to hold an annual general meeting. Elective Resolutions are in force to dispense with the appointment of auditors annually. The auditors, PricewaterhouseCoopers LLP, will therefore be deemed to be reappointed for each succeeding financial year.

Approved by the Board on 29/06/18 and signed on its behalf by:

  
.....  
T G Attree  
Director

Date: 29/06/2018

## **Covent Garden Group Holdings Limited**

### **Independent Auditor's Report to the members of Covent Garden Group Holdings Limited**

#### **Report on the audit of the financial statements**

##### **Opinion**

In our opinion, Covent Garden Group Holdings Limited's Group financial statements and Company financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2017 and of the Group's profit and the Group's and Company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Consolidated Financial Statements (the "Annual Report"), which comprise: the Consolidated and Company Balance Sheets as at 31 December 2017; the Consolidated Income Statement and Consolidated Statement of Comprehensive Income, the Consolidated Statement of Cash Flows, and the Consolidated and Company Statements of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

##### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### *Independence*

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

##### **Conclusions relating to going concern**

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

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern.

## **Covent Garden Group Holdings Limited**

### **Independent Auditor's Report to the members of Covent Garden Group Holdings Limited**

#### **Reporting on other information**

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

#### *Strategic Report and Directors' Report*

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

#### **Responsibilities for the financial statements and the audit**

##### *Responsibilities of the Directors for the financial statements*

As explained more fully in the Statement of Directors' Responsibilities set out on page 7, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

## Covent Garden Group Holdings Limited

### Independent Auditor's Report to the members of Covent Garden Group Holdings Limited

#### *Auditors' responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

#### *Use of this report*

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

#### Other required reporting

##### Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- the Company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



.....  
Jeremy Jensen (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP,  
Chartered Accountants and Statutory Auditors  
London

29 June 2018  
Date:.....

# Covent Garden Group Holdings Limited

## Consolidated Income Statement for the year ended 31 December 2017

Continuing operations:	Note	2017 £ m	2016 £ m
Revenue	2	<u>65.7</u>	<u>71.4</u>
Rental income	2	61.8	52.6
Rental expense		<u>(12.9)</u>	<u>(11.2)</u>
Net rental income	2	48.9	41.4
Profit on sale of trading property	3	-	1.6
Gain on revaluation and sale of investment and development property	4	<u>93.4</u>	<u>126.2</u>
		142.3	169.2
Administrative expenses		<u>(19.4)</u>	<u>(21.3)</u>
Operating profit	5	122.9	147.9
Finance costs	6	(34.6)	(26.1)
Change in fair value of derivative financial instruments		<u>4.3</u>	<u>(2.8)</u>
Net finance cost		<u>(30.3)</u>	<u>(28.9)</u>
Profit before tax		92.6	119.0
Taxation	7	<u>(2.8)</u>	<u>2.5</u>
Profit for the year		<u>89.8</u>	<u>121.5</u>
Profit attributable to:			
Owners of the Parent		<u>89.8</u>	<u>121.5</u>

The notes on pages 19 to 56 form part of these financial statements.

# Covent Garden Group Holdings Limited

## Consolidated Statement of Comprehensive Income for the year ended 31 December 2017

	Note	2017 £ m	2016 £ m
Profit for the year		<u>89.8</u>	<u>121.5</u>
Items that may be reclassified subsequently to profit or loss			
Result/(loss) on cash flow hedge		-	(0.9)
Tax relating to items that may be reclassified subsequently	21	<u>-</u>	<u>0.3</u>
		<u>-</u>	<u>(0.6)</u>
Total comprehensive income for the year		<u>89.8</u>	<u>120.9</u>
Attributable to:			
Owners of Parent		<u>89.8</u>	<u>120.9</u>

The notes on pages 19 to 56 form part of these financial statements.

# Covent Garden Group Holdings Limited

## Consolidated Balance Sheet as at 31 December 2017

	Note	2017 £ m	2016 £ m
<b>Assets</b>			
<b>Non-current assets</b>			
Investment and development property	10	2,493.7	2,229.2
Plant and equipment	11	0.6	0.5
Deferred tax	21	1.3	3.2
Derivative financial instruments	16	-	0.1
Trade and other receivables	13	52.4	41.8
		<u>2,548.0</u>	<u>2,274.8</u>
<b>Current assets</b>			
Trading properties	10	-	3.8
Trade and other receivables	13	18.0	18.3
Cash and cash equivalents	14	0.7	0.2
		<u>18.7</u>	<u>22.3</u>
<b>Total assets</b>		<u>2,566.7</u>	<u>2,297.1</u>
<b>Non-current liabilities</b>			
Borrowings, including finance leases	17	(714.8)	(674.2)
Derivative financial instruments	16	(5.5)	(13.9)
Deferred tax	21	(2.5)	(1.6)
		<u>(722.8)</u>	<u>(689.7)</u>
<b>Current liabilities</b>			
Finance leases	17	(0.7)	(0.5)
Trade and other payables	15	(1,712.7)	(1,566.2)
		<u>(1,713.4)</u>	<u>(1,566.7)</u>
<b>Total liabilities</b>		<u>(2,436.2)</u>	<u>(2,256.4)</u>
<b>Net assets</b>		<u>130.5</u>	<u>40.7</u>
<b>Equity</b>			
Share capital	22	-	-
Other components of equity		<u>130.5</u>	<u>40.7</u>
<b>Total equity</b>		<u>130.5</u>	<u>40.7</u>

The notes on pages 19 to 56 form part of these financial statements. These financial statements on page 12 to 56 have been approved by the Board on 29/06/18 2018 and signed on its behalf by:

T G Attree  
Director

Date: 29/06/2018

# Covent Garden Group Holdings Limited

## Consolidated Statement of Changes in Equity for the year ended 31 December 2017

	Note	Share capital £m	Other reserve £m	Merger reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2016		-	-	-	515.6	515.6
Profit for the year		-	-	-	121.5	121.5
Impact of restructure	9	-	-	(595.8)	-	(595.8)
Loss on cash flow hedge		-	(0.9)	-	-	(0.9)
Tax relating to items that may be reclassified subsequently	21	-	0.3	-	-	0.3
<b>Total comprehensive income for the year</b>		-	(0.6)	(595.8)	121.5	(474.9)
<b>Balance at 31 December 2016</b>		-	(0.6)	(595.8)	637.1	40.7
Profit for the year		-	-	-	89.8	89.8
<b>Total comprehensive income for the year</b>		-	-	-	89.8	89.8
<b>Balance at 31 December 2017</b>		-	(0.6)	(595.8)	726.9	130.5



# Covent Garden Group Holdings Limited

## Company Balance Sheet as at 31 December 2017

	Note	2017 £ m	Restated 2016 £ m
<b>Assets</b>			
<b>Non-current assets</b>			
Investments in subsidiary undertakings	12	-	-
Derivative financial instruments		-	0.1
Deferred tax	21	<u>1.3</u>	<u>3.2</u>
		1.3	3.3
<b>Current assets</b>			
Receivables	13	<u>2,652.0</u>	<u>2,482.6</u>
Total assets		<u>2,653.3</u>	<u>2,485.9</u>
<b>Non-current liabilities</b>			
Borrowings, including finance leases		(709.4)	(670.6)
Derivative financial instruments		<u>(5.5)</u>	<u>(13.9)</u>
		(714.9)	(684.5)
<b>Current liabilities</b>			
Payables	15	<u>(1,936.6)</u>	<u>(1,802.1)</u>
Total liabilities		<u>(2,651.5)</u>	<u>(2,486.6)</u>
Net liabilities		<u>1.8</u>	<u>(0.7)</u>
<b>Equity</b>			
Share capital	22	-	-
Accumulated losses		2.4	(0.1)
Other reserves		<u>(0.6)</u>	<u>(0.6)</u>
Total equity		<u>1.8</u>	<u>(0.7)</u>

Approved by the Board on 29/06/18 and signed on its behalf by:



T G Attree

Director

Date: 29/06/2018

## Covent Garden Group Holdings Limited

### Company Statement of Changes in Equity for the Year Ended 31 December 2017

	Note	Share capital £m	Other reserve £m	Retained earnings £m	Total equity £m
Profit for the period from 2 December 2015 to 31 December 2016		-	-	(0.1)	(0.1)
Loss on cash flow hedge		-	(0.9)	-	(0.9)
Tax relating to items that may be reclassified subsequently		-	0.3	-	0.3
<b>Balance at 31 December 2016</b>		-	(0.6)	(0.1)	(0.7)
Profit for the year	8	-	-	2.5	2.5
<b>Total comprehensive income for the year</b>		-	-	2.5	2.5
<b>Balance at 31 December 2017</b>		-	(0.6)	2.4	1.8

## Covent Garden Group Holdings Limited

### Consolidated Statement of Cash Flows for the year ended 31 December 2017

	Note	2017 £ m	2016 £ m
<b>Cash flows from operating activities</b>			
Cash generated from operations	24	150.6	8.3
Interest paid		(18.4)	(9.6)
<b>Net cash inflow from operating activities</b>		<u>132.2</u>	<u>(1.3)</u>
<b>Cash flows from investing activities</b>			
Purchase and development of property		(176.5)	(165.4)
Sale of property		10.1	18.5
<b>Net cash outflow from investing activities</b>		<u>(166.4)</u>	<u>(146.9)</u>
<b>Cash flows from financing activities</b>			
Borrowings drawn		530.0	425.0
Borrowings repaid		(490.0)	(330.0)
Funding from Parent		-	55.0
Purchase of derivative financial instruments		(4.1)	-
Other finance costs		(1.2)	(1.6)
<b>Net cash inflow from financing activities</b>		<u>34.7</u>	<u>148.4</u>
<b>Net increase in cash and cash equivalents</b>		<u>0.5</u>	<u>0.2</u>
Cash and cash equivalents at 1 January		<u>0.2</u>	<u>-</u>
<b>Cash and cash equivalents at 31 December</b>		<u>0.7</u>	<u>0.2</u>

The notes on pages 19 to 56 form part of these consolidated financial statements.

The Company does not hold any cash balances. All operations of the Company are financed by related party funding and therefore no statement of cash flows has been prepared as required under 'IAS 7 Statement of Cash Flows'.

# **Covent Garden Group Holdings Limited**

## **Notes to the Financial Statements for the year ended 31 December 2017**

### **1 Accounting policies**

#### **General information**

Covent Garden Group Holdings Limited (“the Company”) was incorporated and registered in England and Wales on 2 December 2015, registration number 9897743. The registered office of the Company is 15 Grosvenor Street, London, W1K 4QZ, United Kingdom.

The principal activity of the Company is to act as the parent company of the Covent Garden Group Holdings Limited Group (the “Group”), whose principal activity is the development and management of property. The Group’s assets principally comprise investment and development property at Covent Garden, London.

The ultimate parent company and controlling party of the Company is Capital & Counties Properties PLC, a company incorporated and registered in England and Wales, copies of whose consolidated financial statements may be obtained from the Company Secretary, 15 Grosvenor Street, London, W1K 4QZ.

The immediate parent company is Covent Garden LP Limited, a company incorporated and registered in Jersey, Channel Islands, copies of whose financial statements may be obtained from 1 Waverley Place, Union Street, St Helier, Jersey, JE1 1SG.

#### **Basis of preparation**

The Group’s consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”), as adopted by the European Union, IFRS Interpretations Committee (“IFRS IC”) interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention as modified for the revaluation of property and derivative financial instruments.

The Company’s financial statements to 31 December 2016 were prepared under FRS 101. The Company has applied the transitional arrangements set out in IFRS 1 First-time Adoption of International Financial Reporting Standards as adopted by the European Union. For the Company’s financial statements, there were no accounting differences between FRS 101 and IFRS.

The Directors have taken advantage of the exemption offered by section 408 of the Companies Act 2006 not to present a separate income statement or a statement of comprehensive income for the Company.

# Covent Garden Group Holdings Limited

## Notes to the Financial Statements for the year ended 31 December 2017

### 1 Accounting policies (continued)

#### Group reorganisation

All Covent Garden Group Holdings Limited group companies which were owned and controlled by Capco Covent Garden Limited prior to the group restructure were transferred under the new parent company, Covent Garden Group Holdings Limited, on 21 June 2016. The introduction of this new holding company constitutes a group reconstruction.

The transaction falls outside the scope of IFRS 3 'Business Combinations'. Accordingly, following the guidance regarding the selection of an appropriate accounting policy provided in IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', the transaction has been accounted for in these financial statements using the principals of merger accounting with reference to UK Generally Accepted Accounting Practice ("UK GAAP"). This policy, which does not conflict with IFRS, reflects the economic substance of the transaction.

Therefore, although the Group reconstruction did not occur until the 21 June 2016, these financial statements are presented as if the Group structure had always been in place. For further details on the Group restructure refer to note 9.

#### Going Concern

The Directors are satisfied that the Group has adequate resources to continue in operational existence for a period of at least 12 months from the date of approval of the financial statements and for this reason the consolidated financial statements have been prepared on a going concern basis as explained in the Directors' report on page 7.

#### New standards and interpretations

No new accounting standards and interpretations that are effective at the year ended 31 December 2017 have a material impact on the financial statements.

At the date of approval of the financial statements the following standards and interpretations which have not been applied in these financial statements were in issue but not effective, and in some cases have not been adopted for use in the European Union:

IFRS 9 'Financial Instruments'

IFRS 15 'Revenue from Contracts with Customers'

IFRS 16 'Leases'

IAS 40 'Investment Property' (amendment)

The Group has assessed the impact of these new standards and interpretations and does not anticipate any material impact on the financial statements.

In relation to IFRS 15 'Revenue from Contracts with Customers', the Group's material revenue stream relates to property rental income. On the adoption of the standard this revenue stream will not be materially impacted due to property rental income not being within the scope of IFRS 15.

As the Group acts as a lessor, IFRS 16 'Leases' will not have a material impact on adoption.

## Covent Garden Group Holdings Limited

### Notes to the Financial Statements for the year ended 31 December 2017

#### 1 Accounting policies (continued)

##### **Basis of consolidation**

At 31 December 2017, these consolidated financial statements include the consolidation of three Limited Partnerships.

The General Partners of the Limited Partnerships, namely Capital & Counties CGP, Capco CGP 2012 LP and CG Investments 2016 LP, have taken advantage of disclosure exemptions available in Statutory Instrument 2008/569 for qualifying partnerships and therefore will not produce consolidated accounts at the partnership level.

Subsidiaries and related undertakings are fully consolidated from the date on which the Group has control; it is exposed, or has rights, to variable returns from its involvement with an entity and has the ability to affect those returns through its power over an entity. Subsidiaries and related undertakings cease to be consolidated from the date this control is lost.

##### **Critical accounting judgements and key sources of estimation and uncertainty**

The preparation of consolidated financial statements in accordance with IFRS requires the Directors to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, equity, income and expenses from sources not readily apparent. Although these estimates and assumptions are based on management's best knowledge of the amount, historical experiences and other factors, actual results ultimately may differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period.

Significant area of estimation and uncertainty is:

**Property valuation:** The most significant area of estimation and uncertainty in the consolidated financial statements is in respect of the valuation of the property portfolio and investments, where external valuations are obtained. The valuation of the Group's property portfolio is inherently subjective due to the assumptions as outlined within note 10 'Property Portfolio' and this subjectivity may result in a material adjustment to the carrying amounts of the assets and liabilities year on year. As a result, the valuations the Group places on its property portfolio are subject to a degree of uncertainty and are made on the basis of assumptions which may not prove to be accurate and could therefore have a material effect on the Group's financial performance and position.

The key areas of accounting judgement are:

**Property classification:** Judgement is required in the classification of property between investment, development, trading and owner occupied. Management considers each property separately and reviews factors including the long term intention for the property, in determining if trading, and the level of ancillary income, in determining if owner occupied, to ensure the appropriate classification.

## **Covent Garden Group Holdings Limited**

### **Notes to the Financial Statements for the year ended 31 December 2017**

#### **1 Accounting policies (continued)**

**Revenue recognition:** In making its judgement over revenue recognition for property transactions, management considered the detailed criteria for the recognition of revenue set out in IAS 18 'Revenue' and, in particular, whether the Group had transferred to the buyer the significant risks and rewards of ownership of the assets being disposed. Management also consider the appropriate accounting treatment of tenant lease incentives.

Other less significant judgements and sources of estimation and uncertainty relate to provisions and contingent liabilities.

#### **Revenue recognition**

Property rental income consists of gross income calculated on an accruals basis, together with services where the Group acts as principal in the ordinary course of business, excluding sales of property. Rental income is spread evenly over the period from lease commencement to lease expiry.

Tenant lease incentive payments, including surrender premiums paid which can be directly linked to enhanced rental income, are amortised on a straight-line basis over the lease term. Upon receipt of a surrender premium for the early termination of a lease, the profit and non-recoverable outgoings relating to the lease concerned are immediately reflected in net rental income.

Contingent rents, being those lease payments that are not fixed at the inception of a lease, for example increases arising on rent reviews, are recorded as income in the periods in which they are earned.

Rent reviews are recognised as income, based on management estimates, when it is reasonable to assume they will be received. Estimates are derived from knowledge of market rents for comparable properties determined on an individual property basis and updated for progress of negotiations.

Where revenue is obtained by the sale of property, it is recognised when the significant risks and rewards have been transferred to the buyer. This will normally take place on exchange of contracts unless there are conditions that suggest insufficient probability of future economic benefits flowing to the Group. For conditional exchanges, sales are recognised when these conditions are satisfied.

#### **Finance costs**

Interest is accrued on a time basis, by reference to the principal outstanding and the effective interest rate.

#### **Tax**

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

Current tax is the amount payable on the taxable income for the year and any adjustment in respect of prior years. It is calculated using rates that have been enacted or substantially enacted by the balance sheet date.

## Covent Garden Group Holdings Limited

### Notes to the Financial Statements for the year ended 31 December 2017

#### 1 Accounting policies (continued)

In accordance with IAS 12 'Income Taxes', deferred tax is provided for using the balance sheet liability method on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases of those assets and liabilities. However, temporary differences are not recognised to the extent that they arise from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting nor taxable profit or loss; or are associated with investments in subsidiaries, joint ventures and associates where the timing of the reversal of the temporary difference can be controlled by the parent, venture or investor, respectively, and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that management believes it is probable that future taxable profit will be available against which the deferred tax assets can be recovered. Deferred tax assets and liabilities are only offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same tax authority on either the same taxable group or different taxable entities where there is an intention to settle balances on a net basis.

Tax is included in the income statement except when it relates to items recognised in other comprehensive income or directly in equity, in which case the related tax is also recognised in other comprehensive income or directly in equity respectively.

#### Investment property

Investment and development property are owned or leased by the Group and held for long-term rental income and capital appreciation and exclude property occupied by the Group.

The Group has chosen to use the fair value model. Property and any related obligations are initially recognised when the significant risks and rewards attached to the property have transferred to the Group. Investment and development property are recorded at cost and subsequently revalued at the balance sheet date to fair value as determined by professionally qualified external valuers on the basis of market value after allowing for future transaction costs.

The fair value of property is arrived at by adjusting the market value as above for directly attributable tenant lease incentives and fixed head leases.

Property held under leases is stated gross of the recognised finance lease liability.

The valuation is based upon assumptions as outlined within the property portfolio note. These assumptions conform with the Royal Institution of Chartered Surveyors ("RICS") Valuation Professional Standards. The cost of development properties includes capitalised interest and other directly attributable outgoings, with the exception of properties and land where no development is imminent in which case no interest is included. Interest is capitalised (before tax relief) on the basis of the weighted average cost of debt outstanding until the date of practical completion.



## Covent Garden Group Holdings Limited

### Notes to the Financial Statements for the year ended 31 December 2017

#### 1 Accounting policies (continued)

When the Group redevelops a property for continued future use, that property is classified as investment and development property during the redevelopment period and continues to be measured at fair value.

Gains or losses arising from changes in the fair value of investment and development property are recognised in the income statement in the period in which they arise. Depreciation is not provided in respect of investment property including plant and equipment integral to such investment property. Investment and development properties cease to be recognised as investment and development property when they have been disposed of or when they cease to be held for the purpose of generating rental income or for capital appreciation.

Where the Group disposes of a property at fair value in an arm's length transaction the carrying value immediately prior to the sale is adjusted to the transaction price, offset by any directly attributable costs, and the resulting gain or loss is recorded in the income statement.

A property ceases to be recognised as investment property and is transferred at its fair value to trading property when, in the Directors' judgement, development commences with the intention of sale. Criteria considered in this assessment include, the Board's stated intention, contractual commitments and physical, legal and financial viability.

When the use of a property changes from trading property to investment property, the property is transferred at fair value with any resulting gain recognised in the income statement.

#### Trading property

Trading property comprises those properties that in the Directors' view are not held for long-term rental income or capital appreciation and are expected to be disposed of within one year of the balance sheet date or to be developed with the intention to sell.

Such property is constructed, acquired, or if transferred from investment and development property, transferred at fair value which is deemed to represent cost. Subsequently trading property is carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling costs. This approximates market value as determined by professionally qualified external valuers at the balance sheet date.

The amount of any write-down of trading property to market value is recognised as an expense in the period the write down occurs. Should a valuation uplift occur in a subsequent period, the amount of any reversal shall be recognised as a reduction in the previous write-down in the period in which the uplift occurs. This may not exceed the property's initial cost.

The sale of trading property is recognised as income when the significant risks and rewards have been transferred to the buyer. Total costs incurred in respect of trading property are recognised simultaneously as an expense.

# Covent Garden Group Holdings Limited

## Notes to the Financial Statements for the year ended 31 December 2017

### 1 Accounting policies (continued)

#### Leases

Leases are classified according to the substance of the transaction.

A lease that transfers substantially all the risks and rewards of ownership to the lessee is classified as a finance lease. All other leases are classified as operating leases.

#### Group as a lessee:

In accordance with IAS 40 'Investment Property', property held under finance and operating leases may be accounted for as investment property. Finance leases are recognised as both an asset and an obligation to pay future minimum lease payments. The investment property asset is included in the balance sheet at the lower of fair value and the present value of minimum lease payments, gross of the recognised finance lease liability. Lease payments are allocated between the liability and finance charges so as to achieve a constant financing rate.

Other finance leased assets are capitalised at the lower of the fair value of the leased asset and the present value of the minimum lease payments and depreciated over the shorter of the lease term and the useful life of the asset.

Rental expenses under operating leases are charged to the income statement on a straight-line basis over the lease term.

#### Plant and equipment

Plant and equipment consist of fixtures, fittings and other office equipment. Plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes the original purchase price of the asset plus any attributable cost in bringing the asset to its working condition for its intended use. Depreciation is charged to the income statement on a straight-line basis over an asset's estimated useful life. Currently, the maximum life of the Group's plant and equipment is five years.

#### Trade and other receivables

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost. The Directors exercise judgement as to the collectability of the Group's trade and other receivables and determine when it is appropriate to impair these assets.

#### Investments

Investment in Group companies, which eliminate on consolidation, is stated in the Company's separate financial statements at cost less impairment losses, if any. Impairment losses are determined with reference to the investment's fair value less estimated selling costs. Fair value is derived from the subsidiary's, and their subsidiaries, net assets at the balance sheet date. On disposal, the difference between the net disposal proceeds and its carrying amount is included in the income statement.

## Covent Garden Group Holdings Limited

### Notes to the Financial Statements for the year ended 31 December 2017

#### 1 Accounting policies (continued)

##### **Impairment of financial assets**

An annual review is conducted for financial assets to determine whether there is any evidence of a loss event as described by IAS 39 'Financial Instruments: Recognition and Measurement'. Factors such as days past due, credit status of the counterparty, historical evidence of collection and probability of deriving future economic benefit are considered to assess whether there is objective evidence of impairment. The amount of any potential loss is calculated by estimating future cash flows or by using fair value where this is available through observable market prices. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the original impairment was recognised, the impairment reversal is recognised in the income statement on a basis consistent with the original charge.

##### **Cash and cash equivalents**

Cash and cash equivalents are recognised at fair value. Cash and cash equivalents comprise cash on hand, deposits with banks and other short-term highly liquid investments with original maturities of three months or less.

##### **Derivative financial instruments**

The Group uses non-trading derivative financial instruments to manage exposure to interest rate risk. They are initially recognised on the trade date at fair value and subsequently remeasured at fair value based on market price.

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Instruments that have not been designated as qualifying for hedge accounting are classified as held for trading. Changes in fair value of these instruments are recognised directly in the income statement.

The Group designates certain derivatives as hedges of a highly probable forecast transaction (cash flow hedge). For hedging instruments, the Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking hedging transactions. The Group also documents its assessment, both at hedge inception and on an on-going basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

# **Covent Garden Group Holdings Limited**

## **Notes to the Financial Statements for the year ended 31 December 2017**

### **1 Accounting policies (continued)**

#### **Trade and other payables**

Trade payables are obligations for goods or services acquired in the ordinary course of business. Trade and other payables are recognised at fair value and subsequently measured at amortised cost until settled.

#### **Amounts owed to and from Group undertakings**

Amounts owed to and from Group undertakings are recognised at fair value and subsequently measured at amortised cost until settled.

#### **Provisions**

Provisions are recognised when the Group has a current obligation arising from a past event and it is probable that the Group will be required to settle the obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date.

#### **Borrowings**

Borrowings are recognised initially at their net proceeds as an approximation of fair value and subsequently carried at amortised cost. Any transaction costs, premiums or discounts are capitalised and recognised over the contractual life of the loan using the effective interest rate method; or on a straight line basis where it is impractical to do so. In the event of early repayment, transaction costs, premiums or discounts paid or unamortised costs are recognised immediately in the income statement.

#### **Contingent liabilities and capital commitments**

Contingent liabilities are disclosed where there are present or possible obligations arising from past events, but the economic impact is uncertain in timing, occurrence or amount. A description of the nature and, where possible, an estimate of the financial effect of contingent liabilities are disclosed.

Capital commitments are disclosed when the Group has a contractual future obligation which has not been provided for at the balance sheet date. Amounts are only provided for where such obligations are onerous.

#### **Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

#### **Company statement of cash flows**

The Company does not hold any cash balances. All operations of the Company are financed by related party funding and therefore no statement of cash flows has been prepared as required under IAS 7 'Statement of Cash Flows'.

# Covent Garden Group Holdings Limited

## Notes to the Financial Statements for the year ended 31 December 2017

### 1 Accounting policies (continued)

#### Segmental analysis

All of the Group's revenue is generated from properties located in one geographical area, Covent Garden, London. The properties are managed as a single portfolio by a single asset management team, irrespective of their use. Within this portfolio, a number of properties are under development at any one time. This is viewed by the Directors as a part of the life-cycle of these assets rather than as a separate division; once the development is completed, the property returns to either the investment or trading property portfolio. The Directors have considered the nature and management of the business as well as how the Group's performance is reported internally and, in their judgement, the Group has only one reportable segment.

#### Prior period adjustments

The prior period comparatives for the Company balance sheet have been restated to correct the hedging reserve, income statement reserve and the deferred tax asset. The prior year income statement and balance sheet did not include the deferred tax relating to movement on derivative financial instruments. The impact of this change on the Company financial statements for the year ending 31 December 2016 was as follows:

	£000
Increase in hedging reserve	220
Decrease in retained earnings reserve	2,926
Increase in deferred tax asset	3,153

#### Financial assets and liabilities

##### Impairment

An annual review is conducted for financial assets to determine whether there is any evidence of a loss event as described by IAS 39 'Financial Instruments: Recognition and Measurement'. Factors such as days past due, credit status of the counterparty, historical evidence of collection and probability of deriving future economic benefit are considered to assess whether there is objective evidence of impairment. The amount of any potential loss is calculated by estimating future cash flows or by using fair value where this is available through observable market prices. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the original impairment was recognised, the impairment reversal is recognised in the income statement on a basis consistent with the original charge.

### 2 Revenue

	2017 £ m	2016 £ m
Revenue	<u>65.7</u>	<u>71.4</u>
Rental income	<u>61.8</u>	<u>52.6</u>
Rental expenses	<u>(12.9)</u>	<u>(11.2)</u>
Net rental income	<u>48.9</u>	<u>41.4</u>

## Covent Garden Group Holdings Limited

### Notes to the Financial Statements for the year ended 31 December 2017

#### 3 Profit on sale of trading property

	2017 £ m	2016 £ m
Proceeds from the sale of completed trading property	2.9	18.7
Costs of sale of completed trading property	(2.8)	(16.8)
Agent, selling and marketing fees	(0.1)	(0.3)
<b>Profit on sale of trading property</b>	<b>-</b>	<b>1.6</b>

#### 4 Gain on revaluation and sale of investment and development property

	2017 £ m	2016 £ m
Gain on revaluation of investment and development property	93.4	126.2

#### 5 Operating profit

The operating profit for the year of £122.9m (2016: £147.9m) is arrived after charging:

	2017 £ m	2016 £ m
Depreciation	0.3	0.3

The audit fee charged for the Group in 2017 includes £49,100 relating to subsidiary undertakings which has been borne by Capco Covent Garden Limited and not recharged (2016: £39,700).

There were no employees during the year (2016: nil).

#### Management services

Management services were provided to the Group throughout the year by C&C Management Services Limited, a related party of the Company, for which fees of £17,901,000 (2016: £19,619,000) were charged.

#### Directors' emoluments

The Directors of the Company received no emoluments for their services during 2017 (2016: £nil). Some Directors are also Directors of Capital & Counties Properties PLC, the Company's ultimate parent company, and the remuneration of these Directors is disclosed in the financial statements of Capital & Counties Properties PLC.

# Covent Garden Group Holdings Limited

## Notes to the Financial Statements for the year ended 31 December 2017

### 6 Finance income and costs

	2017 £ m	2016 £ m
<b>Finance costs</b>		
On bank loans, overdrafts and other	19.0	9.7
Amortisation of debt issue costs	0.9	0.3
On obligations under finance leases	0.5	0.5
On amounts owed to group undertakings	16.2	16.4
<b>Total finance costs</b>	<b>36.6</b>	<b>26.9</b>
Interest capitalised on property under development	(2.0)	(0.8)
<b>Finance costs</b>	<b>34.6</b>	<b>26.1</b>

Interest of £2,004,000 (2016: £517,000) has been capitalised, before tax relief, during 2017 on the basis of the weighted average cost of debt of Capital & Counties Properties PLC 2.8 per cent (2016: 2.7 per cent) applied to the cost of property under development.

### 7 Taxation

	2017 £ m	2016 £ m
<b>Deferred income tax:</b>		
On accelerated capital allowances	0.9	0.3
On derivative financial instruments	1.9	(2.9)
<b>Deferred income tax</b>	<b>2.8</b>	<b>(2.6)</b>
Adjustments in respect of prior years - deferred income tax	-	0.1
<b>Total tax charge/(credit)</b>	<b>2.8</b>	<b>(2.5)</b>

## Covent Garden Group Holdings Limited

### Notes to the Financial Statements for the year ended 31 December 2017

#### 7 Taxation (continued)

The differences between the tax assessed for the year and the current average standard rate of United Kingdom corporation tax of 19.25 per cent (2016: 20 per cent) are shown below:

	2017 £ m	2016 £ m
Profit on ordinary activities before tax	<u>92.6</u>	<u>119.0</u>
Current average United Kingdom corporation tax at 19.25% (2016: 20.0%)	17.8	23.8
Effects of:		
Expenses disallowed	-	0.2
Other temporary differences	0.4	(3.4)
Transfer pricing adjustment	3.1	3.4
Group relief surrendered/claimed	0.4	(1.4)
Utilisation of losses carried forward not recognised	(0.9)	-
Revaluation surplus not recognised in deferred tax	(18.0)	(25.2)
Adjustment in respect of previous years - Deferred Tax	<u>-</u>	<u>0.1</u>
Tax charge/(credit) on profit on ordinary activities	<u>2.8</u>	<u>(2.5)</u>

Following the enactment of Finance (No. 2) Act 2015 and Finance Act 2016, the main rate of corporation tax reduced to 19 per cent from April 2017 and will reduce further to 17 per cent from April 2020.

#### 8 Profit for the year attributable to shareholders of Covent Garden Group Holdings Limited

Profit after tax of £2,457,000 was attributable to the shareholder of the Company for 2017 (2016: loss of £154,000). No income statement or statement of comprehensive income has been presented for the Company as permitted by Section 408 Companies Act 2006.



## **Covent Garden Group Holdings Limited**

### **Notes to the Financial Statements for the year ended 31 December 2017**

#### **9 Group reorganisation**

The Company was incorporated on 2 December 2015. The Company was incorporated with a view to facilitate a reorganisation of the Covent Garden division (“Business”) of the ultimate parent company, Capital & Counties Properties PLC. Immediately prior to the reorganisation, the Business had been conducted through Capco Covent Garden Limited and certain of its subsidiaries. Through the reorganisation the Business has been transferred to and is now controlled by the Company.

On 21 June 2016, the Group acquired 100 per cent of the share capital of Capital & Counties CG Limited, Capco CG 2012 Limited, Capco Covent Garden Residential Limited, Capital & Counties CG (No.1) Limited and Capital & Counties CG (No.2) Limited from fellow 100 per cent owned subsidiaries of Capital & Counties Properties PLC. The acquired entities own and manage the Capital & Counties Properties PLC Group’s Covent Garden estate, a leading retail and dining destination in the heart of central London.

The consideration was £809 million, being the fair value of the net assets transferred. Also on 21 June 2016, external debt facility arrangements were novated to Covent Garden Group Holdings Limited from Capco Covent Garden Limited.

As disclosed in the accounting policies, the financial information of the Group is presented using the carrying values of the Business as it was and would have been under the Company. The primary financial statements for the periods presented have therefore been prepared as if the current group structure had been in existence throughout the periods. Any difference between the nominal value of the share capital of the Company and the carrying amount of the net assets value of the Business less the inter-company payable taken on as a result of the reorganisation is recognised within equity as a merger reserve of the Group.

# Covent Garden Group Holdings Limited

## Notes to the Financial Statements for the year ended 31 December 2017

### 10 Property portfolio

#### A. Investment and development property

	2017			2016		
	Lease- hold £m	Free- hold £m	Total £m	Lease- hold £m	Free- hold £m	Total £m
At 1 January	988.4	1,240.8	2,229.2	868.9	1,080.6	1,949.5
Additions from acquisitions	85.8	13.4	99.2	14.2	71.0	85.2
Additions from subsequent expenditure	8.1	70.0	78.1	19.6	48.8	68.4
Disposals	-	(6.2)	(6.2)	-	-	-
Gain on valuation	31.9	61.5	93.4	85.7	40.4	126.1
Carrying value at 31 December	1,114.2	1,379.5	2,493.7	988.4	1,240.8	2,229.2
<i>Adjustments</i>						
Fixed head lease	(6.1)	-	(6.1)	(4.1)	-	(4.1)
Tenant lease incentives	36.2	21.6	57.8	26.1	19.2	45.3
Market value at 31 December	1,144.3	1,401.1	2,545.4	1,010.4	1,260.0	2,270.4

## Covent Garden Group Holdings Limited

### Notes to the Financial Statements for the year ended 31 December 2017

#### B. Trading property

	2017			2016		
	Lease- hold	Free- hold	Total £m	Lease- hold	Free- hold	Total £m
At 1 January	-	3.8	3.8	-	17.4	17.4
Additions from subsequent expenditure	-	-	-	-	0.5	0.5
Disposals	-	(3.8)	(3.8)	-	(14.1)	(14.1)
Carrying value at 31 December	-	-	-	-	3.8	3.8
<i>Adjustments</i>						
Unrecognised revaluation surplus on trading property	-	-	-	-	0.6	0.6
Market value at 31 December	-	-	-	-	4.4	4.4

The fair value of the Group's investment, development and trading property as at 31 December 2017 was determined by independent, appropriately qualified external valuers, CBRE and Jones Lang LaSalle. The valuations conform to the Royal Institution of Chartered Surveyors ("RICS") Valuation Professional Standards. Fees paid to valuers are based on fixed price contracts.

Valuations take into account tenure, lease terms and structural condition. The inputs underlying the valuations include market rent or business profitability, likely incentives offered to tenants, forecast growth rates, yields, construction costs including any site specific costs (for example section 106), professional fees, planning fees, developer's profit including contingencies, planning and construction timelines, lease re-gear costs, planning risk and sales prices based on known market transactions for similar properties or properties similar to those contemplated for development.

Valuations are based on what is determined to be the highest and best use. When considering the highest and best use a valuer will consider, on a property by property basis, its actual and potential uses which are physically, legally and financially viable. Where the highest and best use differs from the existing use, the valuer will consider the cost and the likelihood of achieving and implementing this change in arriving at its valuation.

## Covent Garden Group Holdings Limited

### Notes to the Financial Statements for the year ended 31 December 2017

Some of the Group's properties have been valued on the basis of their development potential which differs from their existing use. In respect of development valuations, the valuer ordinarily considers the gross development value of the completed scheme based upon assumptions of capital values, rental values and yields of the properties which would be created through the implementation of the development. Deductions are then made for anticipated costs, including an allowance for developer's profit before arriving at a valuation.

There are often restrictions on both freehold and leasehold property which could have a material impact on the realisation of these assets. The most significant of these occur when planning permission or lease extension and renegotiation of use are required. These restrictions are factored into the property's valuation by the external valuer.

Non-financial assets carried at fair value, as is the case for investment and development property held by the Group, are required to be analysed by level depending on the valuation method adopted under IFRS 13 'Fair Value Measurement' ("IFRS 13"). Trading property is exempted from IFRS 13 disclosure requirements. The different valuation levels are defined as:

Level 1: valuation based on quoted market prices traded in active markets.

Level 2: valuation based on inputs other than quoted prices included within Level 1 that maximise the use of observable data either directly or from market prices or indirectly derived from market prices.

Level 3: where one or more inputs to valuation are not based on observable market data.

When the degree of subjectivity or nature of the measurement inputs changes, consideration is given as to whether a transfer between fair value levels is deemed to have occurred. Unobservable data becoming observable market data would determine a transfer between Level 3 and Level 2. All investment and development property held by the Group are classified as Level 3.

The following tables set out the valuation techniques used in the determination of market value of investment and development property on a property by property basis, as well as the key unobservable inputs used in the valuation models.

## Covent Garden Group Holdings Limited

### Notes to the Financial Statements for the year ended 31 December 2017

Valuation technique	Market value 2017 £m	Market value 2016 £m	Key unobservable inputs	Range (weighted average) 2017	Range (weighted average) 2016
			Estimated Rental Value per sq ft p.a.	£18 - £362 (£91)	£13 - £333 (£84)
Income capitalisation	2,545.4	2,091.9	Equivalent Yield	2.2% - 6.0% (3.6%)	1.8% - 6.0% (3.6%)
			Construction costs including site specific costs per sq ft		£319 - £585 (£538)
			Developer's profit		10.0% - 15.0% (14.1%)
Residual development method	-	178.5	Capital value per sq ft		£1,636 - £7,903 (£2,707)
			Finance rate	-	5.5%
	<u>2,545.4</u>	<u>2,270.4</u>			

#### Sensitivity Analysis – Income capitalisation method and residual development method

For properties valued under the income capitalisation method, if all other factors remained equal, an increase in estimated rental value of five per cent would result in an increased asset valuation of £118.1 million (2016: £110.9 million). A decrease in the estimated rental value of five per cent would result in a decreased asset value of £114.4 million (2016: £107.8 million). Conversely, an increased equivalent yield of 25 basis points would result in a decreased asset valuation of £173.4 million (2016: £158.9 million). A decreased equivalent yield of 25 basis points would result in an increased asset valuation of £197.6 million (2016: £181.9 million). These inputs are interdependent, partially determined by market conditions. The impact on the valuation could be mitigated by the interrelationship between the two inputs. An increase in estimated rental value occurring in conjunction with an increase in equivalent yield could result in no net impact to the valuation.

## Covent Garden Group Holdings Limited

### Notes to the Financial Statements for the year ended 31 December 2017

#### 11 Plant and equipment

Group	2017 £ m	2016 £ m
<b>Cost</b>		
At 1 January	1.1	1.0
Additions	<u>0.4</u>	<u>0.1</u>
At 31 December	<u>1.5</u>	<u>1.1</u>
<b>Accumulated depreciation</b>		
At 1 January	(0.6)	(0.3)
Depreciation charge	<u>(0.3)</u>	<u>(0.3)</u>
At 31 December	<u>(0.9)</u>	<u>(0.6)</u>
Carrying value at 31 December	<u>0.6</u>	<u>0.5</u>

Plant and equipment includes fixtures, fittings and other office equipment. There are no restrictions on the title of any plant and equipment, or any contractual commitments for the acquisition of further plant and equipment.

## Covent Garden Group Holdings Limited

### Notes to the Financial Statements for the year ended 31 December 2017

#### 12 Investments

##### Company subsidiaries/ related undertakings

	2017 £	2016 £
<b>Cost</b>		
At 1 January	2.0	2.0
At 31 December	2.0	2.0
<b>Impairment</b>		
At 1 January	-	-
At 31 December	-	-
<b>Carrying value at 31 December</b>	<b>2.0</b>	<b>2.0</b>

The Directors believe that the carrying value of the investment in subsidiary and related undertakings is supported by their underlying financial position.

The principal subsidiary and related undertakings of the Company and their principal subsidiary undertakings, all of which are included in the consolidated financial statements, are shown on the following page.

# Covent Garden Group Holdings Limited

## Notes to the Financial Statements for the year ended 31 December 2017

### 12 Investments (continued)

Name of subsidiary/ related undertaking	Principal activity	Proportion of ownership interest and voting rights held by the Group	
		2017	2016
Capital & Counties CG Limited, the General Partner of Capital & Counties CGP	Property	100%	100%
20 The Piazza Limited	Property	100%	100%
20 The Piazza Management Limited	Property	100%	100%
22 Southampton Street Limited	Property	100%	100%
22 Southampton Street Management Limited	Property	100%	100%
34 Henrietta Street Limited	Property	100%	100%
34 Henrietta Street Management Company Limited	Property	100%	100%
Capital & Counties CG Nominee Limited	Dormant	100%	100%
Covent Garden (43 Management) Limited	Dormant	100%	100%
Covent Garden (49 Wellington Street) Limited	Property	100%	100%
Capital & Counties CGP	Property	100%	100%
Capco CG Wellington (JAH) Limited	Holding Company	100%	0%
Capco CG 2012 Limited, the General Partner of Capco CGP 2012 LP	Property	100%	100%
Capco CG 2012 Nominee Limited	Dormant	100%	100%
Capital & Counties CG (No.1) Limited *	Holding company	100%	100%
Capital & Counties CG (No.2) Limited *	Holding company	100%	100%
Newincco 1390 Limited	Dormant	100%	0%
Covent Garden Limited *	Holding company	100%	100%
Capco Covent Garden Residential Limited	Letting	100%	100%
CG Investments 2016 Group Limited *	Holding Company	100%	100%
CG Investments 2016 (No.1) Limited *	Holding Company	100%	100%
CG Investments 2016 (No.2) Limited *	Holding Company	100%	100%
CG Investments 2016 GP Limited, the General Partner of CG Investments 2016 LP	Dormant	100%	100%
CG Investments 2016 Nominee Limited	Dormant	100%	100%
Capco CGP 2012 LP	Property	100%	100%
CG Investments 2016 LP	Dormant	100%	100%
Bronze Limited	Dormant	100%	0%



## Covent Garden Group Holdings Limited

### Notes to the Financial Statements for the year ended 31 December 2017

#### 12 Investments (continued)

Capco CG Wellington (JAR) Limited	Dormant	100%	0%
Capco CG Wellington (O) Limited	Dormant	100%	0%

\* Entity is registered in Jersey, Channel Islands and registered address is 1 Waverly Place, Union Street, St Helier, Jersey, JE1 1SG.

Unless otherwise stated, the companies and limited partnerships are registered in England and Wales. The registered address of each of the companies and limited partnerships is 15 Grosvenor Street, London, W1K 4QZ unless otherwise stated.

The share capital of each of the companies, where applicable, comprises of ordinary shares unless otherwise stated.

The entities listed above are those subsidiary and related undertakings whose results or financial position, in the opinion of the Directors, principally affected the figures in the Group's consolidated financial statements.

The carrying value of investment in subsidiary and related undertakings is reviewed at least annually for impairment. Where an indication of impairment exists, the recoverable amount of the subsidiary undertaking is determined with reference to its fair value less costs to sell. Fair value is derived from the financial position of the subsidiary undertaking at the balance sheet date.

#### 13 Trade and other receivables

	2017 £ m	2016 £ m
<b>Group</b>		
<b>Non-current</b>		
Prepayments and accrued income	52.4	41.8
	<u>52.4</u>	<u>41.8</u>
<b>Current</b>		
Rent receivable	3.6	3.4
Other tax recoverable	-	0.6
Other receivables	1.6	1.3
Prepayments and accrued income	12.8	13.0
Total current trade and other receivables	<u>18.0</u>	<u>18.3</u>

Included within prepayments and accrued income are tenant lease incentives of £57.8 million (2016: £45.3 million).

	2017 £ m	2016 £ m
<b>Company</b>		
Amounts owed from group undertakings	<u>2,652.0</u>	<u>2,482.6</u>

# Covent Garden Group Holdings Limited

## Notes to the Financial Statements for the year ended 31 December 2017

### 13 Trade and other receivables (continued)

Amounts owed from group undertakings are unsecured, interest-bearing at 1.25 per cent and repayable on demand (2016: 1.25 per cent).

### 14 Cash and cash equivalents

#### Group

	2017 £ m	2016 £ m
Cash at bank	<u>0.7</u>	<u>0.2</u>

### 15 Trade and other payables

	2017 £ m	2016 £ m
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#### Current

Rent in advance	14.0	12.9
Accruals and deferred income	23.0	14.9
Amounts owed to group undertakings	1,661.8	1,529.4
Social security and other taxes	0.2	-
Other payables	<u>13.7</u>	<u>9.0</u>
	<u>1,712.7</u>	<u>1,566.2</u>

	2017 £ m	2016 £ m
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#### Company

#### Current

Amounts owed to group undertakings	1,933.7	1,801.3
Accruals and deferred income	<u>2.9</u>	<u>0.8</u>
Trade and other payables	<u>1,936.6</u>	<u>1,802.1</u>

Amounts owed to group undertakings at 31 December 2017 are unsecured, repayable on demand and interest bearing at 1.25 per cent (2016: 1.25 per cent).

Amounts owed to group undertakings rank subordinate to external borrowings.

# Covent Garden Group Holdings Limited

## Notes to the Financial Statements for the year ended 31 December 2017

### 16 Derivative financial instruments

	2017 £ m	2016 £ m
<b>Derivative assets held for trading</b>		
Interest rate cap	-	0.1
<b>Derivative financial liabilities held for trading</b>		
Interest rate swaps	-	(3.6)
Interest rate collars	(5.5)	(10.3)
<b>Derivative financial instruments</b>	<u>(5.5)</u>	<u>(13.9)</u>

### 17 Borrowings, including finance leases

	2017					
	Carrying value £m	Nominal value £m	Fair value £m	Secured £m	Unsecured £m	Fixed rate £m
<b>Current</b>						
Finance lease obligations	0.7	0.7	0.7	0.7	-	0.7
<b>Finance leases</b>	<u>0.7</u>	<u>0.7</u>	<u>0.7</u>	<u>0.7</u>	<u>-</u>	<u>0.7</u>
<b>Non current</b>						
Bank loan	162.0	165.0	165.0	-	162.0	-
Loan notes	547.4	550.0	552.9	-	547.4	547.4
	709.4	715.0	717.9	-	709.4	547.4
Finance lease obligations	5.4	5.4	5.4	5.4	-	5.4
<b>Borrowings, including finance leases</b>	<u>714.8</u>	<u>720.4</u>	<u>723.3</u>	<u>5.4</u>	<u>709.4</u>	<u>552.8</u>
<b>Total borrowings, including finance leases</b>	<u>715.5</u>	<u>721.1</u>	<u>724.0</u>	<u>6.1</u>	<u>709.4</u>	<u>553.5</u>
Cash and cash equivalents	(0.7)					
<b>Net debt</b>	<u>714.8</u>					

## Covent Garden Group Holdings Limited

### Notes to the Financial Statements for the year ended 31 December 2017

	2016						
	Carrying value £m	Nominal value £m	Fair value £m	Secured £m	Unsecured £m	Fixed rate £m	Floating rate £m
<b>Current</b>							
Finance lease obligations	0.5	0.5	0.5	0.5	-	0.5	-
Finance leases	0.5	0.5	0.5	0.5	-	0.5	-
<b>Non current</b>							
Bank loan	347.2	350.0	350.0	-	347.2	-	347.2
Loan notes	323.4	325.0	330.7	-	323.4	323.4	-
	670.6	675.0	680.7	-	670.6	323.4	347.2
Finance lease obligations	3.6	3.6	3.6	3.6	-	3.6	-
<b>Borrowings, including finance leases</b>	<b>674.2</b>	<b>678.6</b>	<b>684.3</b>	<b>3.6</b>	<b>670.6</b>	<b>327.0</b>	<b>347.2</b>
<b>Total borrowings, including finance leases</b>	<b>674.7</b>	<b>679.1</b>	<b>684.8</b>	<b>4.1</b>	<b>670.6</b>	<b>327.5</b>	<b>347.2</b>
Cash and cash equivalents	(0.2)						
<b>Net debt</b>	<b>674.5</b>						

The fair values of floating rate borrowings have been established using the market value, which approximates nominal value. The fair values of fixed rate borrowings have been calculated using a discounted cash flow approach.

In January 2016, the Group replaced the £665 million debt facility with a £705 million five year debt facility which increased available facilities by £40 million. In 2017, the £705 million debt facility was extended by two years and will now mature in 2022. The Group has incurred and capitalised charges of £0.8 million as a result of the extension.

On 14 November 2016, the Group issued a US Private Placement of £125 million 10 year and a £50 million 12 year senior unsecured notes. The Group incurred and capitalised charges of £0.8 million as a result of the placement. On 31 August 2017, the Group issued a US Private Placement of £225 million senior unsecured notes with a maturity profile between 2024 and 2037 and incurred capitalised charges of £1.3 million as a result of the placement.

Cash and undrawn committed facilities attributable to the Group at 31 December 2017 were £540.0 million (2016: £355.0 million).

## Covent Garden Group Holdings Limited

### Notes to the Financial Statements for the year ended 31 December 2017

The maturity profile of gross debt (excluding finance leases) is as follows:

	2017 £m	2016 £m
Wholly repayable in more than two years but not more than five years	165.0	350.0
Wholly repayable in more than five years	550.0	325.0
	<u>715.0</u>	<u>675.0</u>

#### 18 Finance lease obligations

##### Group

##### Finance leases

	2017 £ m	2016 £ m
a) Minimum lease payments under finance leases fall due		
Not later than one year	0.7	0.5
Later than one year and not later than five years	2.9	2.1
Later than five years	<u>18.0</u>	<u>13.0</u>
	21.6	15.6
Future finance charges on finance leases	<u>(15.5)</u>	<u>(11.5)</u>
Present value of finance lease liabilities	<u>6.1</u>	<u>4.1</u>

The present values of future finance lease payments are analysed as follows:

	2017 £ m	2016 £ m
b) Present value of future lease obligations		
Not later than one year	0.7	0.5
In two to five years	2.3	1.7
In over five years	<u>3.1</u>	<u>1.9</u>
	<u>6.1</u>	<u>4.1</u>

Finance lease liabilities are in respect of leasehold investment property. Certain leases provide for payment of contingent rent, usually a proportion of net rental income, in addition to the rents above.

Finance lease liabilities are effectively secured obligations, as the rights to the leased asset revert to the lessor in the event of default.

## Covent Garden Group Holdings Limited

### Notes to the Financial Statements for the year ended 31 December 2017

#### 19 Operating leases

The Group earns rental income by leasing its investment properties to tenants under operating leases.

In the United Kingdom standard commercial leases vary considerably between markets and locations but typically are for a term of five to 15 years at market rent with provisions to review to market rent every five years.

The future minimum lease amounts receivable under non-cancellable operating leases are as follows:

The total future value of minimum lease payments is as follows:

	2017 £ m	2016 £ m
Within one year	57.2	44.8
In two to five years	173.8	140.2
In over five years	259.0	250.2
	<u>490.0</u>	<u>435.2</u>

The income statement includes £0.2 million (2016: £0.2 million) recognised in respect of expected increased rent resulting from outstanding reviews where the actual rent will only be determined on settlement of the rent review.

#### 20 Financial risk management

##### Group

The Group's financial risk management strategy seeks to set financial limits for treasury activity to ensure they are in line with the risk appetite of the Group. The Group is exposed to a variety of risks arising from the Group's operations: market risk (principally interest rate risk), liquidity risk and credit risk.

The following tables set out each class of financial assets, financial liabilities, and their fair values at 31 December 2017 and 31 December 2016.

##### Classification of financial assets and liabilities

	Carrying value £ m	Fair value £ m	Gain /(loss) to statement of comprehensive income £ m
2017			
Derivative financial assets	-	-	(0.1)
Total held for trading assets	<u>-</u>	<u>-</u>	<u>(0.1)</u>

# Covent Garden Group Holdings Limited

## Notes to the Financial Statements for the year ended 31 December 2017

### 20 Financial risk management (continued)

	Carrying value £ m	Fair value £ m	Gain /(loss) to statement of comprehensive income £ m
<b>2017</b>			
Other financial assets	<u>70.4</u>	<u>70.4</u>	<u>-</u>
Total cash and other financial assets	<u><u>70.4</u></u>	<u><u>70.4</u></u>	<u><u>-</u></u>
Derivative financial liabilities	<u>(5.5)</u>	<u>(5.5)</u>	<u>8.4</u>
Total held for trading liabilities	<u><u>(5.5)</u></u>	<u><u>(5.5)</u></u>	<u><u>8.4</u></u>
Borrowings, including finance leases	(715.5)	(715.5)	-
Other financial liabilities	<u>(50.9)</u>	<u>(50.9)</u>	<u>-</u>
Total borrowings and other financial liabilities	<u><u>(766.4)</u></u>	<u><u>(766.4)</u></u>	<u><u>-</u></u>
	Carrying value £ m	Fair value £ m	Gain /(loss) to statement of comprehensive income £ m
<b>2016</b>			
Derivative financial assets	<u>0.1</u>	<u>0.1</u>	<u>(2.2)</u>
Total held for trading assets	<u><u>0.1</u></u>	<u><u>0.1</u></u>	<u><u>(2.2)</u></u>
Other financial assets	<u>60.1</u>	<u>60.1</u>	<u>-</u>
Total cash and other financial assets	<u><u>60.1</u></u>	<u><u>60.1</u></u>	<u><u>-</u></u>
Derivative financial liabilities	<u>(13.9)</u>	<u>(13.9)</u>	<u>(10.7)</u>
Total held for trading liabilities	<u><u>(13.9)</u></u>	<u><u>(13.9)</u></u>	<u><u>(10.7)</u></u>
Borrowings, including finance leases	(674.7)	(674.7)	-
Other financial liabilities	<u>(36.8)</u>	<u>(36.8)</u>	<u>-</u>
Total borrowings and other financial liabilities	<u><u>(711.5)</u></u>	<u><u>(711.5)</u></u>	<u><u>-</u></u>

## Covent Garden Group Holdings Limited

### Notes to the Financial Statements for the year ended 31 December 2017

#### 20 Financial risk management (continued)

The majority of the Group's financial risk management is carried out by the Treasury function ("Treasury") of the Capital & Counties Properties PLC Group under policies approved by the Board of Directors of the ultimate parent. The policies for managing each of these risks and the principal effects of these policies on the results for the year are summarised below.

#### Market risk

##### Interest rate risk

Interest rate risk comprises both cash flow and fair value risks. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Fair value risk is the risk that the fair value of financial instruments will fluctuate as a result of changes in market interest rates.

The Group's interest rate risk arises from borrowings issued at variable rates that expose the Group to cash flow interest rate risk, whereas borrowings issued at fixed interest rates expose the Group to fair value interest rate risk.

It is Group policy, and often a requirement of the lenders, to eliminate substantially all short and medium-term exposure to interest rate fluctuations in order to establish certainty over medium-term cash flows by using fixed interest rate derivatives. Swaps have the economic effect of converting borrowings from floating to fixed rates. Interest rate collars protect the Group by capping the maximum interest rate paid at the collar's ceiling but sacrifices the profitability of interest rate falls below a certain floor.

The table below shows the effects of derivative contracts that are linked to the external borrowings profile of the Group:

	Fixed / Capped 2017 £ m	Floating 2017 £ m	Fixed / Capped 2016 £ m	Floating 2016 £ m
Borrowings	550.0	165.0	325.0	350.0
Derivative impact (nominal value of derivative contracts)	<u>165.0</u>	<u>(165.0)</u>	<u>350.0</u>	<u>(350.0)</u>
Borrowings profile net of derivative impact	<u>715.0</u>	<u>-</u>	<u>675.0</u>	<u>-</u>
Interest rate protection (%)	<u>-</u>	<u>100.0</u>	<u>-</u>	<u>100.0</u>



## Covent Garden Group Holdings Limited

### Notes to the Financial Statements for the year ended 31 December 2017

#### 20 Financial risk management (continued)

##### Cash flow hedges

In 2016, the Group entered into a forward starting interest rate swap to hedge the variability in specified hedged interest cash flows arising on £60 million of outstanding debt from 2016 to 2026. The loss recognised in other comprehensive income in the year was £nil (2016: £0.9 million). This loss will be reclassified from other comprehensive income to the consolidated income statement over the term of the designated debt. The fair value of the designated hedging instrument at 31 December 2017 is £nil (2016: £nil). The hedge was 100 per cent effective; therefore no charge for an ineffective portion has been taken to the consolidated income statement.

The sensitivity analysis below illustrates the impact of a 50 basis point ("bps") shift, upwards and downwards, in the level of interest rates on the movement in fair value of derivative financial instruments.

	Increase in interest rates by 50 bp 2017 £m	Decrease in interest rates by 50 bp 2017 £m	Increase in interest rates by 50 bp 2016 £m	Decrease in interest rates by 50 bp 2016 £m
Effect on profit before tax: Increase/(decrease)	<u>6.6</u>	<u>(6.6)</u>	<u>10.4</u>	<u>(10.4)</u>

The sensitivity analysis above is a reasonable illustration of the possible effect from the changes in slope and shifts in the yield curve that may actually occur and represents management's assessment of possible changes in interest rates. The fixed rate derivative financial instruments are matched by floating rate debt, therefore such a movement would have a very limited effect on Group cash flow overall.

##### Liquidity risk

Liquidity risk is managed to ensure that the Group is able to meet future payment obligations when financial liabilities fall due. Liquidity analysis is intended to provide sufficient headroom to meet the Group's operational requirements and investment commitments.

## Covent Garden Group Holdings Limited

### Notes to the Financial Statements for the year ended 31 December 2017

#### 20 Financial risk management (continued)

The Group's treasury policy also includes maintaining adequate cash, as well as maintaining adequate committed facilities.

A key factor in ensuring existing facilities remain available to the Group is the borrowing entities' ability to meet the relevant facilities' financial covenants. The Group has a process to monitor regularly both current and projected compliance with the financial covenants.

The Group's policy is to seek to minimise its exposure to liquidity risk by managing its exposure to interest rate risk and to refinancing risk. The Group seeks to borrow for as long as possible at the lowest cost.

The Group regularly reviews the maturity profile of its financial liabilities and will seek to avoid concentrations of maturities through the regular replacement of facilities and by staggering maturity dates. Refinancing risk may be reduced by re-borrowing prior to the contracted maturity date, effectively switching liquidity risk for market risk. This is subject to credit facilities being available at the time of the desired refinancing. This was the strategy employed in the refinancing of existing borrowings in 2016.

#### Maturity analysis

The tables below set out the maturity analysis of the Group's financial liabilities based on the undiscounted contractual obligations to make payments of interest and to repay principal. Where interest payment obligations are based on a floating rate, the rates used are those implied by the par yield curve.

Interest	2017				Totals
	1 year	Less than 1-2 years	Between 2-5 years	Over 5 years	
	£ m	£ m	£ m	£ m	£ m
<b>Group</b>					
Unsecured borrowings	20.8	21.2	64.6	78.8	185.4
Interest rate derivatives payable	1.0	0.3	-	-	1.3
	<u>21.8</u>	<u>21.5</u>	<u>64.6</u>	<u>78.8</u>	<u>186.7</u>

# Covent Garden Group Holdings Limited

## Notes to the Financial Statements for the year ended 31 December 2017

### 20 Financial risk management (continued)

Principal	2017				Totals
	1 year	Less than 1-2 years	Between 2-5 years	Over 5 years	
	£ m	£ m	£ m	£ m	£ m
<b>Group</b>					
Unsecured borrowings	-	-	165.0	550.0	715.0
Finance lease obligations	0.7	0.6	1.7	3.1	6.1
Trade and other payables	13.7	-	-	-	13.7
	<u>14.4</u>	<u>0.6</u>	<u>166.7</u>	<u>553.1</u>	<u>734.8</u>
Interest	2016				Totals
	1 year	Less than 1-2 years	Between 2-5 years	Over 5 years	
	£ m	£ m	£ m	£ m	£ m
<b>Group</b>					
Unsecured borrowings	16.6	17.0	44.9	44.5	123.0
Finance lease obligations	-	0.1	0.3	11.1	11.5
Interest rate derivatives payable	3.7	4.0	1.8	-	9.5
Interest rate derivatives receivable	(0.4)	(0.5)	(0.1)	-	(1.0)
	<u>19.9</u>	<u>20.6</u>	<u>46.9</u>	<u>55.6</u>	<u>143.0</u>

## Covent Garden Group Holdings Limited

### Notes to the Financial Statements for the year ended 31 December 2017

#### 20 Financial risk management (continued)

Principal	2016				Totals
	1 year	Less than 1-2 years	Between 2-5 years	Over 5 years	
	£ m	£ m	£ m	£ m	£ m
<b>Group</b>					
Unsecured borrowings	-	-	350.0	325.0	675.0
Finance lease obligations	0.5	0.5	1.2	1.9	4.1
Trade and other payables	9.1	-	-	-	9.1
	<u>9.6</u>	<u>0.5</u>	<u>351.2</u>	<u>326.9</u>	<u>688.2</u>

Contractual maturities reflect the expected maturities of financial instruments.

#### Credit risk and impairment

The Group's principal financial assets are trade and other receivables, amounts receivable from joint ventures, loan notes and cash and cash equivalents. Credit risk is the risk of financial loss if a tenant or counterparty fails to meet an obligation under a contract. Credit risk arises primarily from trade receivables relating to tenants but also from the Group's undrawn commitments and holdings of assets such as cash deposits and loans with financial counterparties. The carrying value of financial assets recorded in the financial statements represents the Group's maximum exposure to credit risk without taking into account the value of any deposits or guarantees obtained.

Credit risk associated with trade receivables is actively managed; tenants are managed individually by asset managers, who continuously monitor and work with tenants, anticipating and wherever possible identifying and addressing risks prior to default. Trade receivables are less than 1 per cent of total assets at 31 December 2017 (2016: Less than 1 per cent) and no one tenant accounts for more than 10 per cent of rental income.

Prospective tenants are assessed through an internally conducted review process, by obtaining credit ratings and reviewing financial information. As a result, deposits or guarantees may be obtained. The amount of deposits held as collateral at 31 December 2017 was £13.6 million (2016: £7.8 million).

Due to the nature of tenants being managed individually by asset managers, it is Group policy to calculate any impairment specifically on each contract.

The ageing analysis of these trade receivables, past due but not impaired, is as follows:

## Covent Garden Group Holdings Limited

### Notes to the Financial Statements for the year ended 31 December 2017

#### 20 Financial risk management (continued)

	2017 £ m	2016 £ m
Up to 90 days	3.0	2.5
Over 90 days	0.1	0.2
Trade receivables	<u>3.1</u>	<u>2.7</u>

As the Group operates predominantly in central London, it is subject to some geographical risk. However, this is mitigated by the extensive range of tenants from varying business sectors and the credit review process as noted above.

The credit risk relating to cash, deposits and derivative financial instruments is actively managed by Group Treasury. Relationships are maintained with a number of institutional counterparties, ensuring compliance with Group policy relating to limits on the credit ratings of counterparties.

Excessive credit risk concentration is avoided through adhering to authorised limits for all counterparties.

#### Capital structure

The Group seeks to enhance shareholder value both by investing in the business so as to improve the return on investment and by managing the capital structure. The Group uses a mix of debt and other financial instruments and aims to access both debt and equity capital markets with maximum efficiency and flexibility.

A key ratio used to monitor the capital structure of the Group is the debt to assets ratio. The Group aims not to exceed an underlying debt to asset ratio of more than 40 per cent.

Debt to assets ratio	2017 £ m	2016 £ m
Investment properties	2,493.7	2,229.3
Trading properties	-	2.9
	<u>2,493.7</u>	<u>2,232.2</u>
Net external debt	<u>(714.8)</u>	<u>(674.5)</u>
	<u>28.7%</u>	<u>30.2%</u>

#### Fair value estimation

Financial instruments carried at fair value are required to be analysed by level depending on the valuation method adopted under IFRS 13. The different valuation levels are defined in note 10.

The tables below present the Group's assets and liabilities recognised at fair value at 31 December 2017 and 31 December 2016. The fair values of derivative financial instruments are determined from observable market prices or estimated using appropriate yield curves at 31 December each year by discounting the future contractual cash flows to the net present values.

# Covent Garden Group Holdings Limited

## Notes to the Financial Statements for the year ended 31 December 2017

### 20 Financial risk management (continued)

#### Fair value estimation (continued)

##### Liabilities measured at fair value 2017

	Level 1 £ m	Level 2 £ m	Level 3 £ m	Total £ m
Derivative financial liabilities	-	(5.5)	-	(5.5)
	<u>-</u>	<u>(5.5)</u>	<u>-</u>	<u>(5.5)</u>

##### Assets measured at fair value 2016

	Level 1 £ m	Level 2 £ m	Level 3 £ m	Total £ m
Derivative financial assets	-	0.1	-	0.1
	<u>-</u>	<u>0.1</u>	<u>-</u>	<u>0.1</u>

##### Liabilities measured at fair value 2016

	Level 1 £ m	Level 2 £ m	Level 3 £ m	Total £ m
Derivative financial liabilities	-	(13.9)	-	(13.9)
	<u>-</u>	<u>(13.9)</u>	<u>-</u>	<u>(13.9)</u>

### 21 Deferred tax

The decrease in corporation tax rate, referred to in note 7 'Taxation', has been enacted for the purposes of IAS12 'Income Taxes' ("IAS 12") and therefore has been reflected in these consolidated financial statements based on the expected timing of the realisation of deferred tax.

Deferred tax on investment and development property is calculated under IAS 12 provisions on a disposals basis by reference to the properties' original tax base cost. Elements factored into the calculation include indexation relief and the Group's holding structure. The Group's recognised deferred tax liability on investment and development property as calculated under IAS 12 is £nil at 31 December 2017 (2016: £nil).

Group	2017 £ m	2016 £ m
Provided deferred tax asset		
Fair value on derivative financial instruments		
At 1 January	3.2	-
Movement in year - income statement	(1.9)	2.9
Movement in year - statement of comprehensive income	<u>-</u>	<u>0.3</u>
At 31 December	<u>1.3</u>	<u>3.2</u>

## Covent Garden Group Holdings Limited

### Notes to the Financial Statements for the year ended 31 December 2017

	2017 £ m	2016 £ m
<b>Provided deferred tax liability</b>		
<b>Accelerated capital allowances</b>		
At 1 January	(1.6)	(1.1)
Movement in the year - income statement	(0.9)	(0.5)
<b>At 31 December</b>	<b>(2.5)</b>	<b>(1.6)</b>

	2017 £ m	2016 £ m
<b>Company</b>		
<b>Provided deferred tax asset</b>		
<b>Fair value of derivative financial instrument</b>		
At 1 January	3.2	-
Movement in the year - income statement	(1.9)	2.9
Movement in the year - statement of comprehensive income	-	0.3
<b>At 31 December</b>	<b>1.3</b>	<b>3.2</b>

In accordance with the requirements of IAS 12, the below deferred tax asset has not been recognised in the consolidated financial statements due to uncertainty regarding the level of profits that will be available in future years against which deferred tax can be recovered.

	2017 £ m	2016 £ m
<b>Group</b>		
<b>Unprovided deferred tax asset</b>		
At 1 January	2.1	2.6
Prior year adjustment	(0.4)	0.5
Movement in year - income statement	(0.9)	(1.0)
<b>At 31 December</b>	<b>0.8</b>	<b>2.1</b>

#### 22 Share capital

##### Allotted, called up and fully paid shares

	No.	2017 £	No.	2016 £
Ordinary shares of 1.0 each	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>

#### 23 Capital commitments

At 31 December 2017, the Group was contractually committed to £19.5 million (2016: £74.2 million) of future expenditure for the purchase, construction, development and enhancement of investment, development and trading property. The full committed amount of £19.5 million relates to 2018 expenditure.

## Covent Garden Group Holdings Limited

### Notes to the Financial Statements for the year ended 31 December 2017

#### 24 Cash generated from operations

	Note	2017 £ m	2016 £ m
Profit before tax		92.6	119.0
<b>Adjustment for:</b>			
Profit on sale of trading property	3	-	(1.6)
Gain on revaluation of investment and development property	4	(93.4)	(126.2)
Depreciation	11	0.3	0.3
Amortisation of lease incentives and other direct costs		(1.9)	1.6
Finance costs	6	30.3	28.9
<b>Change in working capital:</b>			
Change in trade and other receivables		(27.1)	(16.9)
Change in trade and other payables		149.8	3.2
<b>Cash generated from operations</b>		<b>150.6</b>	<b>8.3</b>

#### 25 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation of the Group.

On 21 June 2016, the Group acquired 100 per cent share capital of Capital & Counties CG Limited, Capco CG 2010 Limited, Capco Covent Garden Residential Limited, Capital & Counties CG (No.1) Limited and Capital & Counties CG (No.2) Limited. Please refer to note 9 for more details. As a result the Company became the direct funding vehicle for the Covent Garden Group by way of drawn downs on the revolving credit facility and intercompany funding from Capco Group Treasury Limited on behalf of its subsidiaries. Prior to that date this was undertaken by Capco Covent Garden Limited.

Subsidiary/ related undertaking	Nature of transaction - funding activities	2017 £ m	2016 £ m
Capital & Counties CG Limited	Restructure of group	-	(3.2)
20 The Piazza Limited	Restructure of group	-	2.2
34 Henrietta Street Limited	Restructure of group	-	1.0
Capital & Counties CGP	Restructure of group	-	(1,507.4)



## Covent Garden Group Holdings Limited

### Notes to the Financial Statements for the year ended 31 December 2017

#### 25 Related party transactions (continued)

Significant balances outstanding between the Company, its subsidiaries and other related entities are shown below:

	2017	2016
	£ m	£ m
Subsidiary/ related undertaking		
Capital & Counties CG (No.1) Limited	(157.4)	(157.4)
Capital & Counties CG (No.2) Limited	(110.9)	(110.9)
20 the Piazza Limited	(2.2)	(2.2)
Capco Group Treasury Limited	(1,661.8)	(1,529.4)
Capital & Counties CGP	1,823.1	1,670.2
Covent Garden Limited	809.4	809.4
Capital & Counties CG Limited	3.3	3.2

#### 26 Parent and ultimate parent undertaking

The ultimate parent company and controlling party is Capital & Counties Properties PLC, a company incorporated and registered in England and Wales, copies of whose financial statements may be obtained from 15 Grosvenor Street, London, W1k 4QZ.

The Company's immediate parent is Covent Garden LP Limited, a company incorporated in Jersey, Channel Islands, copies of whose financial statements may be obtained from 1 Waverley Place, Union Street, St Helier, Jersey, JE1 1SG.

#### 27 Events after the reporting period

On 24 May 2018 Capital & Counties Properties PLC announced that it is considering a demerger, which would result in two separately-listed businesses based around its prime central London estates. Should a demerger be pursued this may result in a change in the ultimate parent undertaking of the Company.