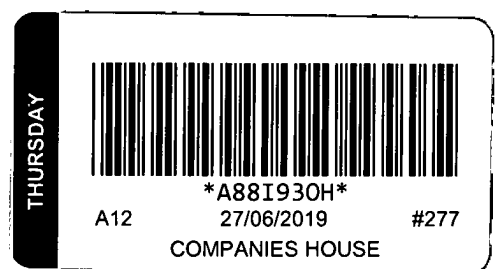


Registration number: 09897743

Covent Garden Group Holdings Limited

Annual Report and Consolidated Financial Statements

for the Year Ended 31 December 2018



Covent Garden Group Holdings Limited

Strategic Report for the year ended 31 December 2018

The Directors present their Strategic Report for Covent Garden Group Holdings Limited (“the Group”) for the year ended 31 December 2018.

Operating Review

Covent Garden is continuing to build on its success as a world-class retail and dining destination and is well-positioned to deliver long-term income and value growth. The team’s proactive approach is designed to sustain and enhance demand from occupiers and consumers. The Group adopts a thoughtful approach to selecting leading retail and dining brands and targeting concepts to satisfy consumer expectations.

Consumer needs are constantly evolving, therefore the environment and management of a high quality destination are key in securing demand across all uses, particularly retail. The Group actively engages with its audiences through multi-channel marketing activities such as events, brand partnerships and digital outreach, as well as investment in high quality public realm to enhance the overall customer experience on the estate. Covent Garden has a very significant social media presence with approximately 400,000 followers across Instagram, Facebook and Twitter. Covent Garden is attractive to both online and physical retailers as brands use the estate as well as the strong social media presence to launch products and events, evidencing the strength of not only Covent Garden’s location but also the potential value of the brand.

The luxury component continues to expand with the introduction of brands such as Tiffany & Co. and there is an increasing representation from brands generating higher sales densities. 2018 was another active year delivering positive performance. The retail portfolio continued to flourish, with good demand for offices and residential accommodation as occupiers were attracted to the overall offer at Covent Garden. The estate made a number of signings and 2018 was a record year for openings with brands such as SushiSamba and The Shop at Bluebird further strengthening the estate’s attractiveness as a leading global destination. The completion of Floral Court and subsequent opening of the courtyard, connecting Floral Street with King Street anchored by retail and dining concepts have enhanced the pedestrian flow on the northern side of the estate.

The Covent Garden estate is highly reversionary, and demand for space in this setting continued to be positive, highlighted by 21 new brands which opened during the year. 103 leasing transactions including new leases and renewals were completed, representing £12.9 million of rental income per annum transacted at 7.5 per cent above 31 December 2017 estimated rental value (“ERV”) (H1 2018: 26 transactions representing £4.2 million of rental income, H2 2018: 77 transactions representing £8.7 million of rental income).

Net rental income (“NRI”) was £57.5 million, up 9.6 per cent (like-for-like) or 17.5 per cent in absolute terms compared to 2017. NRI growth continued to outperform ERV growth as the reversionary income potential of the portfolio was captured. The value of the estate increased by 1.6 per cent on a like-for-like basis to over £2.6 billion. ERV was £108 million, a like-for-like increase over the year of 3.0 per cent. Contracted income of the estate was £83 million which represented 77 per cent of the ERV at the year-end. Occupancy on the estate remained high at 97 per cent.

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

Covent Garden Group Holdings Limited

Strategic Report for the year ended 31 December 2018

Operating Review (continued)

Retail

Luxury jewellery brand Tiffany & Co. opened a store on James Street, showcasing a new concept for Tiffany & Co., offering not only its iconic designs, but also an innovative and distinctive retail experience encouraging consumer interaction. The new Tiffany & Co. store complements Covent Garden's impressive growing luxury retail offer which includes Bucherer, Chanel and Mulberry.

The ongoing repositioning of Floral Street as a fashion and lifestyle destination continues to progress. During the year fitness technology company Peloton agreed terms to open its first flagship studio outside the US at 11 Floral Street. The Grade II listed former Victorian seed warehouse, will transform into a Peloton training studio, covering over 20,000 square feet. The studio, spread over four floors, will live stream classes to members worldwide.

Premium womenswear brand ba&sh agreed terms to open a flagship store on King Street. The signing of ba&sh completes the retail leasing activity within Floral Court on King Street.

The Shop at Bluebird opened in Carriage Hall, housing two dedicated retail floors. The multi brand concept store stocks more than 100 brands such as Victoria Beckham, Marni, Acne Studios and Alexander McQueen.

US fashion brand Free People opened its first permanent store outside the US, at 28 Floral Street. The Philadelphia-founded ethical-lifestyle brand connects with the customer by sharing the stories behind the latest collections and designs.

Jewellery, gifting and accessories continue to strengthen with the introduction of luxury jewellery brand Alkemistry to Floral Court, as well as the opening of contemporary jewellery brand APM Monaco in the Royal Opera House Arcade, offering a collection of hand-crafted designs. In addition, leading travel brand Tumi was introduced to the Royal Opera House Arcade.

During the year strong demand for the Market Building was recorded; new leasing deals were agreed with Whittards and Atelier Cologne, along with the introduction of new British watch brand Olivia Burton. South Africa's leading spa brand, Africology, has taken space, providing a globally-recognised product range that features in some of the best hotels and spas in the world. Fashion forward eyewear brand For Art's Sake launched its first standalone retail store. The store incorporates a host of customer features, including a selfie station, personal shopping in multiple languages, a concierge option, tax-free shopping as well as Click and Collect.

Shortly after year end, French luxury sportswear brand Lacoste agreed terms to open a new store on James Street. The opening of Lacoste will continue to position Covent Garden as one of London's key fashion and lifestyle destinations for a wide range of international, luxury brands.

Covent Garden Group Holdings Limited

Strategic Report for the year ended 31 December 2018

Operating Review (continued)

Dining

Introducing high quality innovative food concepts has been central to the dining strategy for Covent Garden. Ten new restaurant formats opened during 2018 adding to the depth of quality on the estate, establishing Covent Garden as one of London's best dining destinations.

Global restaurant SushiSamba opened its fusion dining restaurant on the Opera Terrace above the Market Building, offering a unique blend of Japanese, Brazilian and Peruvian cuisine. The Market Building's dining offering has been enhanced with the opening of acclaimed US fast casual restaurant Buns & Buns. The Miami based 'breadery' and grill is another London first for Covent Garden and offers an all-day casual dining destination.

Petersham Nurseries opened two new restaurants in Floral Court, La Goccia, a vibrant all-day restaurant offering an extensive menu of small sharing plates, and The Petersham, a sophisticated a la carte restaurant. Tables flow out onto Floral Court, where al fresco dining is offered.

New York restaurant RedFarm opened alongside Balthazar on Russell Street, bringing modern Chinese cuisine and dim sum to Covent Garden. The 96-seat restaurant features modern rustic decor across three floors, offering a casual dining experience.

Mariage Frères, a Parisian tea house, opened its UK flagship and first stand-alone store outside Paris on King Street comprising over 8,000 square feet, set across retail space, a restaurant specialising in tea gastronomy, a tea museum and two private event spaces.

Adding to the offering on Henrietta Street was Cora Pearl, a new restaurant from the team behind Kitty Fisher's in Mayfair. Henrietta Street also welcomed another UK first, Avobar, London's first permanent avocado bar serving avocado based dishes.

Southampton Street welcomed the opening of Abuelo, an Australian-meets-South-American coffee house and kitchen. Pancs joined the Market Building, offering handcrafted pancakes, Egg'cellent, serving a breakfast only menu using fresh and organic eggs will open shortly. So Souffle opened its first branch in Europe offering delicious soufflé desserts.

Covent Garden now has its best line up to date, attracting large numbers of Londoners as well as visitors to the Capital. Footfall across the estate was up and particularly positive on the feeder streets which act as entrances to the estate. In addition, there are a number of openings scheduled for 2019. Vyta Santa Margherita is fitting out space in the Market Building and is expected to open in the spring of 2019. Wahlburgers, the casual dining burger restaurant and bar, will open its first restaurant outside the US on James Street, offering a menu of high quality homemade burgers and sandwiches, fresh salads and shakes.

Covent Garden Group Holdings Limited

Strategic Report for the year ended 31 December 2018

Operating Review (continued)

Offices

The office portfolio performed well during the year, with good demand for the boutique offer. Covent Garden has become an attractive office location for professional services, creative industries and SMEs. A number of office lettings have been achieved during the year including floors at Regal House and Tower House as well as the successful letting of the newly developed office space at 11 Floral Street. There continues to be strong interest from occupiers with high demand to work in the district, and under supply of offices in the area. Office space represents 13 per cent of the portfolio by value.

Residential

Covent Garden's prime residential address continues to strengthen with strong leasing demand for residential accommodation across the estate. The residential portfolio operated close to full occupancy with a high rate of renewals recorded above previous passing rent.

The residential component of Floral Court comprises 16 heritage apartments on King Street and Rose Street and 29 new apartments on Floral Street. The entire heritage component has been leased to Sonder, a single operator which provides flexible short-term accommodation. Strong buyer interest was received for the new build collection, with 11 units sold representing £32 million of sales proceeds of which £19 million occurred during 2018.

Hospitality

Encouraging first steps have been taken in introducing hotel accommodation to the estate. There has been encouraging demand across various price points. Z Hotels opened on Bedford Street, providing accommodation for visitors with a new 111 room hotel. Existing tenant, The Henrietta Hotel, upsized its offering into a neighbouring building, reflecting positive performance on the estate.

Acquisitions and development

Covent Garden's largest development to date, Floral Court, completed successfully during the year. Floral Court provides over 85,000 square feet (NIA) of space, with eight retail and two restaurant units as well as 45 apartments. The new connecting courtyard between Floral Street and King Street opened and substantially all of the commercial space was let or is under offer.

The Group continued to expand its ownership of the estate, acquiring three properties for £19 million consideration including purchasers' costs. Most notably, the Group completed the 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 for £10 million. Repositioning of the Wellington block presents an interesting investment opportunity; the Group is reviewing options, which include proposals for office and retail space as well as hospitality.

Subsequent to year end the Group acquired 39-40 Bedford Street which presents a repositioning opportunity on an important entrance to the estate. There are a number of further properties on or around the estate being tracked for acquisition and repositioning opportunities.

Covent Garden Group Holdings Limited

Strategic Report for the year ended 31 December 2018

Operating Review (continued)

Future priorities

The Group continues to implement its strategy for Covent Garden through creative asset management and investment, and attracting excellent retail brands and dining concepts to the estate. By introducing a differentiated mix of British, global and independent brands to address the evolving needs of the consumer, the Group aims to continue capturing the reversionary income potential of the portfolio while continuing to drive ERV progression.

Further to this, the Group aims to continue enhancing the customer environment and make investments to expand its ownership of the estate. As the new openings across the estate trade and pedestrian flow changes, this will present further repositioning opportunities. In addition, the southern side of the estate offers a number of embedded growth opportunities, including the repositioning of the Wellington block.

Building on the successful openings in 2018 including Tiffany & Co., The Shop at Bluebird, and SushiSamba, 2019 will see a number of retail and dining openings across the estate with brands such as Wahlburgers, Lacoste and ba&sh 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 2018 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 2018 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 continues to maintain a strong balance sheet, with low leverage, high liquidity and modest capital commitments. The valuation of Covent Garden has risen by 1.6 per cent (like-for-like) to £2.6 billion, driven by like-for-like ERV growth of 3.0 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 2018 were £168.3 million (2017: £130.5 million).

The market value of the Group's property portfolio increased by £64.6 million during the year to £2,610.0 million, a 1.6 per cent gain on a like-for-like basis compared with the MSCI Total Return index for the equivalent period of 7.5 per cent.

Covent Garden Group Holdings Limited

Strategic Report for the year ended 31 December 2018


Financial review (continued)

Property acquisitions in the year totalled £18.7 million in relation to three new properties. Subsequent to the year end, the Group acquired 39-40 Bedford Street which presents a repositioning opportunity on an important entrance to the estate. There are a number of further properties on or around the estate being tracked for acquisition and re-positioning opportunities. Disposals during the year totalled £17.3 million, which consisted of the continued disposal of Floral Court residential apartments.

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 21.01 per cent (2017: 28.7 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 2018 the proportion of gross debt with interest rate protection was 100 per cent (2017: 100 per cent). The Group remains compliant with all of its debt covenants.

Approved by the Board on 21 June 2019..... and signed on its behalf by:


.....
T G Attree
Director

Date: 21/06/2019.....

Covent Garden Group Holdings Limited

Directors' Report for the year ended 31 December 2018

The Directors present their report and the audited Consolidated Financial Statements for the year ended 31 December 2018.

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 year ended 31 December 2018 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 9.

Dividends

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

Capital structure

Details of share capital are set out in note 21.

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 19.

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 2018

Going concern

At 31 December 2018 the Group's cash and undrawn committed facilities were £707 million and its capital commitments were £3.8 million. The weighted average debt maturity exceeded 6 years, LTV was 21.0 per cent and there was 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 2018 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 2018 Annual Report & Consolidated Financial Statements on a going concern basis.

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 auditors

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 auditors are aware of that information. The Directors confirm that there is no relevant information that they know of and of which they know the auditors are unaware.

Statement of Directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group Consolidated Financial Statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union 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 Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period.

In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and IFRSs as adopted by the European Union have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

Covent Garden Group Holdings Limited

Directors' Report for the year ended 31 December 2018

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

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

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 re-appointed for each succeeding financial year.

Approved by the Board on 21 June 2019 and signed on its behalf by:



T G Attree

Director

Date: 21/06/2019

Covent Garden Group Holdings Limited

Independent Auditors' 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 2018 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 Parent 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: Consolidated and Company Balance Sheets as at 31 December 2018; 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; the accounting policies; and the notes to the financial statements.

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

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.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Parent Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Group's trade, customers, suppliers and the wider economy.

Covent Garden Group Holdings Limited

Independent Auditors' 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 2018 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 8, 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 Auditors' 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. 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.

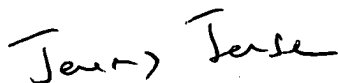
Other required reporting

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

Date: 21/5/19

Covent Garden Group Holdings Limited

Consolidated Income Statement for the year ended 31 December 2018

Continuing operations:	Note	2018 £ m	2017 £ m
Revenue	2	<u>71.3</u>	<u>65.7</u>
Rental income	2	71.3	61.8
Rental expense	2	<u>(13.8)</u>	<u>(12.9)</u>
Net rental income	2	57.5	48.9
Gain on revaluation and sale of investment and development property	4	<u>39.3</u>	<u>93.4</u>
		96.8	142.3
Administrative expenses		<u>(19.3)</u>	<u>(19.4)</u>
Operating profit	5	77.5	122.9
Finance costs	6	(38.9)	(34.6)
Change in fair value of derivative financial instruments		<u>2.2</u>	<u>4.3</u>
Net finance cost		<u>(36.7)</u>	<u>(30.3)</u>
Profit before tax		40.8	92.6
Taxation	7	<u>(3.0)</u>	<u>(2.8)</u>
Profit for the year		<u>37.8</u>	<u>89.8</u>
Profit attributable to: Owners of the Parent		<u>37.8</u>	<u>89.8</u>

The notes on pages 20 to 57 form part of these financial statements.

Covent Garden Group Holdings Limited

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

	2018 £ m	2017 £ m
Profit for the year	<u>37.8</u>	<u>89.8</u>
Total comprehensive income for the year	<u>37.8</u>	<u>89.8</u>
Attributable to: Owners of Parent	<u>37.8</u>	<u>89.8</u>

The notes on pages 20 to 57 form part of these financial statements.

Covent Garden Group Holdings Limited

Consolidated Balance Sheet as at 31 December 2018

	Note	2018 £ m	2017 £ m
Assets			
Non-current assets			
Investment and development property	9	2,565.6	2,493.7
Plant and equipment	10	0.6	0.6
Deferred tax	20	-	1.3
Derivative financial instruments	15	0.7	-
Trade and other receivables	12	44.9	52.4
		<u>2,611.8</u>	<u>2,548.0</u>
Current assets			
Trade and other receivables	12	21.6	18.0
Cash and cash equivalents	13	0.8	0.7
		<u>22.4</u>	<u>18.7</u>
Non-current assets classified as held for sale		8.4	-
Total assets		<u>2,642.6</u>	<u>2,566.7</u>
Non-current liabilities			
Borrowings, including finance leases	16	(550.7)	(714.8)
Derivative financial instruments	15	-	(5.5)
Deferred tax	20	(3.4)	(2.5)
		<u>(554.1)</u>	<u>(722.8)</u>
Current liabilities			
Finance leases	16	(0.7)	(0.7)
Trade and other payables	14	(1,919.5)	(1,712.7)
		<u>(1,920.2)</u>	<u>(1,713.4)</u>
Total liabilities		<u>(2,474.3)</u>	<u>(2,436.2)</u>
Net assets		<u>168.3</u>	<u>130.5</u>
Equity			
Share capital	21	-	-
Other components of equity		168.3	130.5
Total equity		<u>168.3</u>	<u>130.5</u>

The notes on pages 20 to 57 form part of these financial statements. These financial statements on page 13 to 57 have been approved by the Board on 21 June 2019 and signed on its behalf by:

T G Attree
Director

Date: 21/06/2019

Covent Garden Group Holdings Limited

Consolidated Statement of Changes in Equity for the year ended 31 December 2018

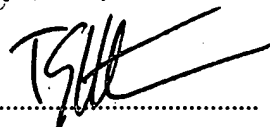
	Share capital £m	Other reserve £m	Merger reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2017	-	(0.6)	(595.8)	637.1	40.7
Profit for the year	-	-	-	89.8	89.8
Balance at 31 December 2017	<u>-</u>	<u>(0.6)</u>	<u>(595.8)</u>	<u>726.9</u>	<u>130.5</u>
Profit for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>37.8</u>	<u>37.8</u>
Total comprehensive income for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>37.8</u>	<u>37.8</u>
Balance at 31 December 2018	<u>-</u>	<u>(0.6)</u>	<u>(595.8)</u>	<u>764.7</u>	<u>168.3</u>

Covent Garden Group Holdings Limited

Company Balance Sheet as at 31 December 2018

	Note	2018 £ m	2017 £ m
Assets			
Non-current assets			
Investments in subsidiary undertakings	11	-	-
Derivative financial instruments	15	0.7	-
Deferred tax	20	-	1.3
		0.7	1.3
Current assets			
Receivables	12	2,692.4	2,652.0
Total assets		<u>2,693.1</u>	<u>2,653.3</u>
Non-current liabilities			
Borrowings, including finance leases		(545.3)	(709.4)
Derivative financial instruments	15	-	(5.5)
		(545.3)	(714.9)
Current liabilities			
Payables	14	(2,145.2)	(1,936.6)
Total liabilities		<u>(2,690.5)</u>	<u>(2,651.5)</u>
Net assets		<u>2.6</u>	<u>1.8</u>
Equity			
Share capital	21	-	-
Retained earnings		3.2	2.4
Other reserves		(0.6)	(0.6)
Total equity		<u>2.6</u>	<u>1.8</u>

Approved by the Board on 21/06/2019 and signed on its behalf by:



T G Attree

Director

Date: 21/06/2019

Covent Garden Group Holdings Limited

Company Statement of Changes in Equity for the Year Ended 31 December 2018

		Share capital £m	Other reserve £m	(Accumulated losses)/ Retained earnings £m	Total equity £m
Balance at 1 January 2017	Note	-	(0.6)	(0.1)	(0.7)
Profit for the year		-	-	2.5	2.5
Balance at 31 December 2017		-	(0.6)	2.4	1.8
Profit for the year	8	-	-	0.8	0.8
Total comprehensive income for the year		-	-	0.8	0.8
Balance at 31 December 2018		-	(0.6)	3.2	2.6

Covent Garden Group Holdings Limited

Consolidated Statement of Cash Flows for the year ended 31 December 2018

	Note	2018 £ m	2017 £ m
Cash flows from operating activities			
Cash generated from operations	23	235.3	150.6
Interest paid		(20.4)	(18.4)
Net cash inflow from operating activities		<u>214.9</u>	<u>132.2</u>
Cash flows from investing activities			
Purchase and development of property		(65.2)	(176.5)
Sale of property		19.3	10.1
Net cash outflow from investing activities		<u>(45.9)</u>	<u>(166.4)</u>
Cash flows from financing activities			
Borrowings drawn		20.0	530.0
Borrowings repaid		(185.0)	(490.0)
Purchase of derivative financial instruments		(4.0)	(4.1)
Other finance costs		0.1	(1.2)
Net cash (outflow)/inflow from financing activities		<u>(168.9)</u>	<u>34.7</u>
Net increase in cash and cash equivalents		<u>0.1</u>	<u>0.5</u>
Cash and cash equivalents at 1 January		<u>0.7</u>	<u>0.2</u>
Cash and cash equivalents at 31 December		<u>0.8</u>	<u>0.7</u>

The notes on pages 20 to 57 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 2018

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 in the Covent Garden area of central 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 of the Company is Covent Garden LP Limited, a company incorporated and registered in Jersey, Channel Islands, copies of whose financial statements may be obtained from 27 Esplanade, 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 2018 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.

Going Concern

The Directors are satisfied that the Group and the Company have 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 8.

Covent Garden Group Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2018

1 Accounting policies (continued)

New standards and interpretations

During 2018, the following accounting standards and interpretations have been adopted:

IFRS 9 'Financial Instruments'

IFRS 15 'Revenue from Contracts with Customers'

IFRS 16 'Leases'

IAS 40 'Investment Property' (amendment)

IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' were adopted from 1 January 2018. The standards have been applied in full, with the exemption of comparative periods as permitted under IFRS 1.

The Company has made changes to its accounting policies however the adoption did not have a material impact on the financial statements.

IFRS 9 'Financial Instruments' modifies the classification and measurement of financial assets and financial liabilities, impairment provisioning and hedge accounting. There is no change in respect of classification of financial assets and liabilities and hedge accounting. All financial assets have been assessed for impairments under the 12 month and lifetime expected credit loss models considered by IFRS 9.

In relation to IFRS 15 'Revenue from Contracts with Customers', the Company's material revenue stream relates to property rental income. On the adoption of the standard this revenue stream was not materially impacted due to property rental income not being within the scope of IFRS 15. The impact on all other revenue streams is not material.

At the date of approval of the consolidated 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 16 'Leases'

As the Company is predominantly a lessor, IFRS 16 'Leases' will not have a material impact on adoption. Where the Company is currently a lessee, this relates only to immaterial contracts.

Basis of consolidation

At 31 December 2018, 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 financial statements at the partnership level.

Covent Garden Group Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2018

1 Accounting policies (continued)

Basis of consolidation (continued)

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 9 '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.

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

Covent Garden Group Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2018

1 Accounting policies (continued)

Revenue recognition

Rent receivable 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, and in certain instances surrender premium payments which are directly linked to new leases, are amortised on a straight-line basis over the lease terms as a reduction in net rental income. Surrender premiums received for early termination of leases are 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.

Where the outcome of an outstanding rent review is reasonably certain, rent is accrued from the review date based upon an estimated annual rent. 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 buyer obtains control of the property. This will normally take place on legal completion. Revenue arising from the sale of property under construction is recognised on completion once all performance obligations have been completed and control of the property has been transferred to the buyer.

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 2018

1 Accounting policies (continued)

Tax (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.

Covent Garden Group Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2018

1 Accounting policies (continued)

Investment property

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

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.

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 properties includes capitalised interest and other directly attributable outgoings associated with developments and refurbishments, including surrender premiums paid to remove existing tenants to allow for redevelopment, 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.

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.

Disposals are recognised on completion. Gains or losses arising are recognised in the income statement. The gain on disposal is determined as the difference between the net sales proceeds and the carrying amount of the asset at the commencement of the accounting period plus capital expenditure in the period.

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.

Covent Garden Group Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2018

1 Accounting policies (continued)

Investment property (continued)

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. Net realisable value 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 cost.

The sale of trading property is recognised as revenue when the buyer obtains control of the property. Total costs incurred in respect of trading property are recognised simultaneously as an expense.

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.

Covent Garden Group Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2018

1 Accounting policies (continued)

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.

Investments

Investment in Group companies, which eliminates 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.

Trade and other receivables

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost. The methodology for assessment of impairment is defined in the following paragraph.

Impairment of financial assets

The Company applies the IFRS 9 'Financial Instruments' simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all financial assets. To measure the expected credit losses, receivables are reviewed on an individual contract basis. The expected loss rates are based on historical evidence of collection. The historical loss rates are adjusted to reflect current and future information such as estimated future cash flows or by using fair value where this is available through observable market prices and review of macroeconomic factors which may affect the counterparty's ability to settle the receivables. 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.

Covent Garden Group Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2018

1 Accounting policies (continued)

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.

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.

Covent Garden Group Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2018

1 Accounting policies (continued)

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'.

Segmental analysis

All of the Group's revenue is generated from properties located in one geographical area, Covent Garden, central 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.

Covent Garden Group Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2018

1 Accounting policies (continued)

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

	2018 £ m	2017 £ m
Revenue	<u>71.3</u>	<u>65.7</u>
Rental income	<u>71.3</u>	<u>61.8</u>
Rental expenses	<u>(13.8)</u>	<u>(12.9)</u>
Net rental income	<u>57.5</u>	<u>48.9</u>

Covent Garden Group Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2018

3 Result on sale of trading property

	2018 £ m	2017 £ m
Proceeds from the sale of completed trading property	-	2.9
Costs of sale of completed trading property	-	(2.8)
Agent, selling and marketing fees	-	(0.1)
Result on sale of trading property	<u>-</u>	<u>-</u>

4 Gain on revaluation and sale of investment and development property

	2018 £ m	2017 £ m
Gain on revaluation of investment and development property	37.3	93.4
Gain on sale of investment property	<u>2.0</u>	<u>-</u>
Gain on revaluation and sale of investment and development property	<u>39.3</u>	<u>93.4</u>

5 Operating profit

The operating profit for the year of £77.5m (2017: £122.9m) is arrived after charging:

	2018 £ m	2017 £ m
Depreciation	<u>0.4</u>	<u>0.3</u>

The audit fee charged for the Group in 2018 includes £59,075 relating to subsidiary undertakings which has been borne by an intermediate parent, Capco Covent Garden Limited, and not recharged (2017: £49,100).

There were no employees during the year (2017: 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 £17,942,000 (2017: £17,901,000) were charged.

Directors' emoluments

The Directors of the Company received no emoluments for their services during 2018 (2017: £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 2018

6 Finance costs

	2018 £ m	2017 £ m
Finance costs		
On bank loans, overdrafts and other	19.6	19.0
Amortisation of debt issue costs	1.0	0.9
On obligations under finance leases	0.7	0.5
On amounts owed to group undertakings	<u>19.7</u>	<u>16.2</u>
Total finance costs	41.0	36.6
Interest capitalised on property under development	<u>(2.1)</u>	<u>(2.0)</u>
Finance costs	<u><u>38.9</u></u>	<u><u>34.6</u></u>

Interest of £2,100,000 (2017: £2,004,000) has been capitalised, before tax relief, during 2018 on the basis of the weighted average cost of debt of Capital & Counties Properties PLC 2.9 per cent (2017: 2.8 per cent) applied to the cost of property under development.

7 Taxation

	2018 £ m	2017 £ m
Current income tax:		
Current tax	<u>0.8</u>	<u>-</u>
Total current income tax	<u>0.8</u>	<u>-</u>
Deferred income tax:		
On accelerated capital allowances	0.9	0.9
On derivative financial instruments	<u>1.3</u>	<u>1.9</u>
Deferred income tax	<u>2.2</u>	<u>2.8</u>
Total tax charge	<u><u>3.0</u></u>	<u><u>2.8</u></u>

Covent Garden Group Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2018

7 Taxation (continued)

The differences between the tax assessed for the year and the current average standard rate of United Kingdom corporation tax of 19.0 per cent (2017: 19.25 per cent) are shown below:

	2018 £ m	2017 £ m
Profit on ordinary activities before tax	<u>40.8</u>	<u>92.6</u>
Current average United Kingdom corporation tax at 19.0% (2017: 19.25%)	7.8	17.8
Effects of:		
Non-taxable items	(0.3)	-
Other temporary differences	0.7	0.4
Transfer pricing adjustment	3.4	3.1
Group relief claimed/surrendered	(0.7)	0.4
Utilisation of losses carried forward not recognised	(0.8)	(0.9)
Revaluation surplus not recognised in deferred tax	<u>(7.1)</u>	<u>(18.0)</u>
Tax charge on profit on ordinary activities	<u>3.0</u>	<u>2.8</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.

Following an announcement during Budget 2017 and a consultation period, legislation has now been enacted (Finance Act 2019) that will impact the group as follows:

- UK tax will be charged on gains made by non-resident entities on direct and certain indirect disposals of UK immovable property, with effect from April 2019;
- non-UK resident companies that carry on a UK property business or have UK property income will be charged to UK corporation tax, rather than UK income tax, with effect from 6 April 2020.

8 Profit for the year attributable to shareholder of the Company

Profit after tax of £800,000 was attributable to the shareholder of the Company for 2018 (2017: £2,457,000). 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 2018

9 Property portfolio

A. Investment and development property

	2018			2017		
	Lease- hold £m	Free- hold £m	Total £m	Lease- hold £m	Free- hold £m	Total £m
At 1 January	1,114.2	1,379.5	2,493.7	988.4	1,240.8	2,229.2
Additions from acquisitions	0.3	18.4	18.7	85.8	13.4	99.2
Additions from subsequent expenditure	18.9	22.6	41.5	8.1	70.0	78.1
Disposals	-	(17.2)	(17.2)	-	(6.2)	(6.2)
Gain on valuation	19.5	17.8	37.3	31.9	61.5	93.4
Classified as held for sale	-	(8.4)	(8.4)	-	-	-
Carrying value at 31 December	1,152.9	1,412.7	2,565.6	1,114.2	1,379.5	2,493.7
<i>Adjustments</i>						
Fixed head lease	(6.1)	-	(6.1)	(6.1)	-	(6.1)
Tenant lease incentives	25.8	24.7	50.5	36.2	21.6	57.8
Market value at 31 December	<u>1,172.6</u>	<u>1,437.4</u>	<u>2,610.0</u>	<u>1,144.3</u>	<u>1,401.1</u>	<u>2,545.4</u>

Covent Garden Group Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2018

9. Property portfolio (continued)

B. Trading property

	2018			2017		
	Leasehold £m	Freehold £m	Total £m	Leasehold £m	Freehold £m	Total £m
At 1 January	-	-	-	-	3.8	3.8
Additions from subsequent expenditure	-	-	-	-	-	-
Disposals	-	-	-	-	(3.8)	(3.8)
Carrying value at 31 December	-	-	-	-	-	-
<i>Adjustments</i>						
Unrecognised revaluation surplus on trading property	-	-	-	-	-	-
Market value at 31 December	-	-	-	-	-	-

The fair value of the Group's investment, development and trading property as at 31 December 2018 was determined by independent, appropriately qualified external valuers, CBRE Limited 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 2018

9. Property portfolio (continued)

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.

Valuation technique	Market value 2018 £m	Market value 2017 £m	Key unobservable inputs	Range (weighted average) 2018	Range (weighted average) 2017
			Estimated Rental Value per sq ft p.a.	£20 - £369 (£92)	£18 - £362 (£91)
Income capitalisation	<u>2,610.0</u>	<u>2,545.4</u>	Equivalent Yield	2.2% - 6.0% (3.6%)	2.2% - 6.0% (3.6%)

Covent Garden Group Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2018

9. Property portfolio (continued)

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 £120.7 million (2017: £118.1 million). A decrease in the estimated rental value of five per cent would result in a decreased asset value of £115.2 million (2017: £114.4 million). Conversely, an increased equivalent yield of 25 basis points would result in a decreased asset valuation of £174.8 million (2017: £173.4 million). A decreased equivalent yield of 25 basis points would result in an increased asset valuation of £199.8 million (2017: £197.6 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.

10 Plant and equipment

Group

	2018 £ m	2017 £ m
Cost		
At 1 January	1.5	1.1
Additions	<u>0.4</u>	<u>0.4</u>
At 31 December	<u>1.9</u>	<u>1.5</u>
Accumulated depreciation		
At 1 January	(0.9)	(0.6)
Depreciation charge	<u>(0.4)</u>	<u>(0.3)</u>
At 31 December	<u>(1.3)</u>	<u>(0.9)</u>
Carrying value at 31 December	<u>0.6</u>	<u>0.6</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 2018

11 Investments in subsidiary undertakings

Company subsidiaries/ related undertakings

	2018 £	2017 £
Cost		
At 1 January	<u>2.0</u>	<u>2.0</u>
At 31 December	<u>2.0</u>	<u>2.0</u>
Impairment		
At 1 January	<u>-</u>	<u>-</u>
At 31 December	<u>-</u>	<u>-</u>
Carrying value at 31 December	<u><u>2.0</u></u>	<u><u>2.0</u></u>

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 2018

11 Investments in subsidiary undertakings (continued)

Name of subsidiary/ related undertaking	Principal activity	Proportion of ownership interest and voting rights held by the Group	
		2018	2017
Covent Garden Limited and its subsidiary undertakings*:	Holding company	100%	100%
Capco CG 2012 Limited, the General Partner of Capco CGP 2012 LP, and its subsidiary undertaking:	Property	100%	100%
— Capco CG 2012 Nominee Limited	Dormant	100%	100%
Capco CGP 2012 LP	Property	100%	100%
Capco Covent Garden Residential Limited	Letting	100%	100%
Capital & Counties CG (No.1) Limited *	Holding company	100%	100%
Capital & Counties CG (No.2) Limited *	Holding company	100%	100%
Capital & Counties CG Limited, the General Partner of Capital & Counties CGP, and its subsidiary undertakings:	Property	100%	100%
— 20 The Piazza Limited	Property	100%	100%
— 20 The Piazza Management Limited	Property management	100%	100%
— 22 Southampton Street Limited	Property	100%	100%
— 22 Southampton Street Management Limited	Property management	100%	100%
— 34 Henrietta Street Limited	Property	100%	100%
— 34 Henrietta Street Management Company Limited	Property management	100%	100%
— Bronze Limited**	In liquidation	100%	100%
— Capco CG Wellington (JAH) Limited**	In liquidation	100%	100%
— Capco CG Wellington (JAR) Limited**	In liquidation	100%	100%
— Capco CG Wellington (O) Limited**	In liquidation	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%
— Floral Court Collection Management Limited	Property management	100%	0%
— Floral Court Limited	Property	100%	0%

Covent Garden Group Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2018

11 Investments in subsidiary undertakings (continued)

– Newincco 1390 Limited**	In liquidation	100%	100%
Capital & Counties CGP	Property	100%	100%
CG Investments 2016 Group Limited and its subsidiary undertakings*:	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%
CG Investments 2016 LP	Dormant	100%	100%

* Entity is registered in Jersey, Channel Islands and registered address is 27 Esplanade, St Helier, Jersey, JE1 1SG.

** Registered address: 55 Baker Street, London, W1U 7EU.

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.

Covent Garden Group Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2018

12 Trade and other receivables

Group	2018 £ m	2017 £ m
Non-current		
Prepayments and accrued income	<u>44.9</u>	<u>52.4</u>
	<u>44.9</u>	<u>52.4</u>
Current		
Rent receivable	5.8	3.6
Other receivables	1.6	1.6
Prepayments and accrued income	<u>14.2</u>	<u>12.8</u>
Total current trade and other receivables	<u>21.6</u>	<u>18.0</u>

Included within prepayments and accrued income are tenant lease incentives of £50.5 million (2017: £57.8 million).

Company	2018 £ m	2017 £ m
Amounts owed from group undertakings	<u>2,692.4</u>	<u>2,652.0</u>

Amounts owed from group undertakings are unsecured, interest-bearing at 1.25 per cent and repayable on demand (2017: 1.25 per cent).

13 Cash and cash equivalents

Group	2018 £ m	2017 £ m
Cash at bank	<u>0.8</u>	<u>0.7</u>

Covent Garden Group Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2018

14 Trade and other payables

Group	2018 £ m	2017 £ m
Current		
Rent in advance	16.2	14.0
Accruals and deferred income	12.7	23.0
Amounts owed to group undertakings	1,870.7	1,661.8
Social security and other taxes	4.6	0.2
Other payables	15.3	13.7
	<u>1,919.5</u>	<u>1,712.7</u>

Company	2018 £ m	2017 £ m
Current		
Amounts owed to group undertakings	2,142.3	1,933.7
Accruals and deferred income	<u>2.9</u>	<u>2.9</u>
Trade and other payables	<u>2,145.2</u>	<u>1,936.6</u>

Amounts owed to group undertakings at 31 December 2018 are unsecured, repayable on demand and interest bearing at 1.25 per cent (2017: 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 2018

15 Derivative financial instruments

Group and Company

	2018 £ m	2017 £ m
Derivative financial assets held for trading		
Interest rate collars	0.7	-
Derivative financial instruments	0.7	-
Derivative financial liabilities held for trading		
Interest rate collars	-	(5.5)
Derivative financial instruments	-	(5.5)

16 Borrowings, including finance leases

	2018					
	Carrying value £m	Nominal value £m	Fair value £m	Secured £m	Unsecured £m	Fixed rate £m
Current						
Finance lease obligations	0.7	0.7	0.7	0.7	-	0.7
Finance leases	0.7	0.7	0.7	0.7	-	0.7
Non current						
Bank loan	(2.4)	-	-	-	(2.4)	-
Loan notes	547.7	550.0	530.7	-	547.7	547.7
	545.3	550.0	530.7	-	545.3	547.7
Finance lease obligations	5.4	5.4	5.4	5.4	-	5.4
Borrowings, including finance leases	550.7	555.4	536.1	5.4	545.3	553.1
Total borrowings, including finance leases	551.4	556.1	536.8	6.1	545.3	553.8
Cash and cash equivalents	(0.8)					
Net debt	550.6					

Covent Garden Group Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2018

16 Borrowings, including finance leases (continued)

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

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 2018 were £707.0 million (2017: £540.0 million).

Covent Garden Group Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2018

16 Borrowings, including finance leases (continued)

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

	2018 £m	2017 £m
Wholly repayable in more than two years but not more than five years	-	165.0
Wholly repayable in more than five years	550.0	550.0
	<u>550.0</u>	<u>715.0</u>

17 Finance lease obligations

Group

Finance leases

	2018 £ m	2017 £ m
a) Minimum lease payments under finance leases fall due		
Not later than one year	0.7	0.7
In two to five years	2.9	2.9
In over five years	<u>18.0</u>	<u>18.0</u>
	21.6	21.6
Future finance charges on finance leases	<u>(15.5)</u>	<u>(15.5)</u>
Present value of finance lease liabilities	<u>6.1</u>	<u>6.1</u>

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

	2018 £ m	2017 £ m
b) Present value of future lease obligations		
Not later than one year	0.7	0.7
In two to five years	2.3	2.3
In over five years	<u>3.1</u>	<u>3.1</u>
	<u>6.1</u>	<u>6.1</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 2018

18 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:

	2018 £ m	2017 £ m
Within one year	60.2	57.2
In two to five years	179.3	173.8
In over five years	234.8	259.0
	<u>474.3</u>	<u>490.0</u>

The income statement includes £1.0 million (2017: £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.

Covent Garden Group Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2018

19 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 2018 and 31 December 2017.

Classification of financial assets and liabilities

	Carrying value 2018 £ m	Gain /(loss) to income statement 2018 £ m	Restated ¹ Carrying value 2017 £m	Restated ¹ Gain /(loss) to income statement 2017 [£m]
Derivative financial assets	0.7	-	-	(0.1)
Total held for trading assets	0.7	-	-	(0.1)
Cash and cash equivalents	0.8	-	0.7	-
Other financial assets	7.4	-	4.7	-
Total cash and other financial assets	8.2	-	5.4	-
Derivative financial liabilities	-	5.5	(5.5)	8.4
Total held for trading liabilities	-	5.5	(5.5)	8.4
Borrowings, including finance leases	(551.4)	-	(715.5)	-
Other financial liabilities	(34.9)	-	(36.9)	-
Total borrowings and other financial liabilities	(586.3)	-	(752.4)	-

1. The comparative has been restated to remove a non-financial asset and liability.

Covent Garden Group Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2018

19 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 2018 £ m	Floating 2018 £ m	Fixed / Capped 2017 £ m	Floating 2017 £ m
Borrowings	550.0	-	550.0	165.0
Derivative impact (nominal value of derivative contracts)	-	-	165.0	(165.0)
Borrowings profile net of derivative impact	550.0	-	715.0	-
Interest rate protection (%)	-	100.0	-	100.0

Covent Garden Group Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2018

19 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 £60.0 million of outstanding debt from 2016 to 2026. The loss recognised in other comprehensive income in the year was £nil (2017: £nil). 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 2018 is £nil (2017: £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 2018 £m	Decrease in interest rates by 50 bp 2018 £m	Increase in interest rates by 50 bp 2017 £m	Decrease in interest rates by 50 bp 2017 £m
Effect on profit before tax:				
Increase/(decrease)	<u>5.3</u>	<u>(5.3)</u>	<u>6.6</u>	<u>(6.6)</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 2018

19 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	2018				Totals
	1 year	Less than 1-2 years	Between 2-5 years	Over 5 years	
	£ m	£ m	£ m	£ m	£ m
Group					
Unsecured borrowings	20.0	18.6	52.7	63.1	154.4
Finance lease obligations	-	0.1	0.5	14.9	15.5
Interest rate derivatives receivable	-	-	(0.7)	-	(0.7)
	<u>20.0</u>	<u>18.7</u>	<u>52.5</u>	<u>78.0</u>	<u>169.2</u>

Covent Garden Group Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2018

19 Financial risk management (continued)

Principal	2018				Totals
	1 year	Less than 1-2 years	Between 2-5 years	Over 5 years	
	£ m	£ m	£ m	£ m	£ m
Group					
Unsecured borrowings	-	-	-	550.0	550.0
Finance lease obligations	0.7	0.6	1.7	3.1	6.1
Trade and other payables	48.7	-	-	-	48.7
	<u>49.4</u>	<u>0.6</u>	<u>1.7</u>	<u>553.1</u>	<u>604.8</u>
Interest	2017				Totals
	1 year	Less than 1-2 years	Between 2-5 years	Over 5 years	
	£ m	£ m	£ m	£ m	£ m
Group					
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 2018

19 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
Group					
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>

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 2018 (2017: 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 2018 was £13.9 million (2017: £13.6 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 2018

19 Financial risk management (continued)

	2018 £ m	2017 £ m
Up to 90 days	4.4	3.0
Over 90 days	1.4	0.1
Trade receivables	5.8	3.1

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	2018 £ m	2017 £ m
Investment properties	2,565.6	2,493.7
	2,565.6	2,493.7
Net external debt	(550.6)	(714.8)
	21.5%	28.7%

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 9.

The tables on the next page present the Group's assets and liabilities recognised at fair value at 31 December 2018 and 31 December 2017. 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 2018

19 Financial risk management (continued)

Fair value estimation (continued)

Assets measured at fair value 2018

	Level 1 £ m	Level 2 £ m	Level 3 £ m	Total £ m
Derivative financial asset	-	0.7	-	0.7
	-	0.7	-	0.7

Liabilities measured at fair value 2017

	Level 1 £ m	Level 2 £ m	Level 3 £ m	Total £ m
Derivative financial liabilities	-	(5.5)	-	(5.5)
	-	(5.5)	-	(5.5)

20 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 2018 (2017: £nil).

Group	2018 £ m	2017 £ m
Provided deferred tax asset		
Fair value on derivative financial instruments		
At 1 January	1.3	3.2
Movement in year - income statement	(1.3)	(1.9)
At 31 December	-	1.3

Covent Garden Group Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2018

20 Deferred tax (continued)

	2018 £ m	2017 £ m
Provided deferred tax liability		
Accelerated capital allowances		
At 1 January	(2.5)	(1.6)
Movement in the year - income statement	<u>(0.9)</u>	<u>(0.9)</u>
At 31 December	<u>(3.4)</u>	<u>(2.5)</u>
Company	2018	2017
Provided deferred tax asset	£ m	£ m
Fair value of derivative financial instrument		
At 1 January	1.3	3.2
Movement in the year - income statement	<u>(1.3)</u>	<u>(1.9)</u>
At 31 December	<u>-</u>	<u>1.3</u>

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.

Group	2018 £ m	2017 £ m
Unprovided deferred tax asset		
At 1 January	0.8	2.1
Prior year adjustment	-	(0.4)
Movement in year - income statement	<u>(0.8)</u>	<u>(0.9)</u>
At 31 December	<u>-</u>	<u>0.8</u>

Covent Garden Group Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2018

21 Share capital

Group and Company

Allotted, called up and fully paid shares

	No.	2018 £	No.	2017 £
Ordinary shares of £1 each	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>

22 Capital commitments

At 31 December 2018, the Group was contractually committed to £3.8 million (2017: £19.5 million) of future expenditure for the purchase, construction, development and enhancement of investment, development and trading property. The full committed amount of £3.8 million relates to 2018 expenditure.

23 Cash generated from operations

	Note	2018 £ m	2017 £ m
Profit before tax		40.8	92.6
Adjustment for:			
Gain on revaluation and sale of investment and development property	4	(39.3)	(93.4)
Depreciation	10	0.4	0.3
Amortisation of lease incentives and other direct costs		(1.0)	(1.9)
Finance costs	6	36.7	30.3
Change in working capital:			
Change in trade and other receivables		(15.6)	(27.1)
Change in trade and other payables		<u>213.3</u>	<u>149.8</u>
Cash generated from operations		<u>235.3</u>	<u>150.6</u>

24 Related party transactions

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

Covent Garden Group Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2018

24 Related party transactions (continued)

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

	2018	2017
	£ 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	(1,870.7)	(1,661.8)
Capital & Counties CGP	1,880.0	1,823.1
Covent Garden Limited	809.4	809.4
Capital & Counties CG Limited	3.3	3.3

25 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 the Company Secretary, 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 27 Esplanade, St Helier, Jersey, JE1 1SG.