

Partnership Registration No: OC360128

**VEGA GROUND RENTS NO3 LLP**  
**(FORMERLY E&J GROUND RENTS NO3 LLP)**  
**REPORT AND FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 31 DECEMBER 2019**



**VEGA GROUND RENTS NO3 LLP**

**MEMBERS AND OFFICERS**

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**Designated Members**

Vega GR Partner 1 Limited  
Vega GR Partner 2 Limited

**REGISTERED OFFICE**

Berkeley House  
304 Regents Park Road  
London  
N3 2JX

**AUDITOR**

RSM UK Audit LLP  
Chartered Accountants  
3<sup>rd</sup> Floor  
One London Square  
Cross Lanes  
Guildford  
Surrey  
GU1 1UN

## **VEGA GROUND RENTS NO3 LLP**

### **MEMBERS' REPORT**

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The members present their report together with the audited financial statements for the period ended 31 December 2019.

#### **Principal Activity**

The principal activity of the LLP during the period was property investment.

#### **Change of name**

On 23 September 2019 the LLP changed its name from E&J Ground Rents No3 LLP to Vega Ground Rents No3 LLP.

#### **Designated Members**

The following Designated Members have held office during the period:

SF Member No.1 Limited (resigned 20 August 2019)  
SF Member No.2 Limited (resigned 20 August 2019)  
Vega GR Partner 1 Limited (appointed 20 August 2019)  
Vega GR Partner 2 Limited (appointed 20 August 2019)

#### **Members' capital and interests**

Members are remunerated from the profits of the LLP. Profits are allocated and divided between members after finalisation of the financial statements. Members draw profits after the year, subject to the cash requirements of the business.

#### **Results**

The statement of comprehensive income is set out on page 7 and shows the results for the period. The LLP's profit for the period before members' remuneration and profit shares amounted to £4,345,921 (2018: £7,811,331). The change in profit is as a result of the fair value gain on investment properties and also reflects the disposal of a number of the investment properties. Details of the investment property gains are set out below and in note 7.

#### **Business review and future developments**

The members are satisfied with the financial position of the LLP at the period end.

The members do not expect there to be significant future developments which could adversely impact the business however notice should be taken of the potential legislative changes disclosed in the critical accounting estimates and assumptions section of Note 1.10.

#### **Investment properties**

The investment properties have been valued at £5,228,890 (2018: £37,837,802). The fair value gain in the period amounted to £4,367,269 (2018: £5,792,593), substantially all of which arose as a result of the change from a valuation methodology which discounted cash flows over 50 years to an external actuarial valuation which discounts cash flows over 150 years. Details of the investment properties are set out in note 7.

## VEGA GROUND RENTS NO3 LLP

### MEMBERS' REPORT

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#### Public pledge for leaseholders

In June 2019 a number of residential real estate developers and freeholders, including the group of which the LLP is now a member, signed a government-backed public pledge in relation to leaseholders. This pledge is a crucial step towards positive change in the residential leasehold market and reflects our commitment to promoting good practice. The LLP's appointed agent, Estates & Management Limited, a company related by virtue of common control and members, also signed this pledge.

The pledge sets out a number of principles which will assist existing and future leaseholders in ensuring the leasehold system is as fair and transparent as possible. It also includes undertakings to work with other freeholders and stakeholders to develop a comprehensive Code of Practice which establishes the responsibilities of freeholders and enshrines the highest standards for the management and maintenance of properties.

#### Statement of members' responsibilities

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

Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 (the 2008 Regulations) requires the members to prepare financial statements for each financial year. Under that law the members have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under the 2008 Regulations, the members 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 LLP and of the profit or loss of the LLP for that period.

In preparing those financial statements, the members are required to:

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

Under the 2008 Regulations the members are responsible for keeping adequate accounting records that are sufficient to show and explain the LLP's transactions and disclose with reasonable accuracy at any time the financial position of the LLP and to enable them to ensure that the financial statements comply with the requirements of those Regulations. They are also responsible for safeguarding the assets of the LLP and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### Auditor

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

These accounts have been prepared in accordance with the provisions applicable to limited liability partnerships subject to the small LLPs regime.

On behalf of the members:



**P A Hallam, on behalf of Vega GR Partner 1 Limited**  
Designated Member

24/3/2021

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VEGA GROUND RENTS NO3 LLP**

### **Opinion**

We have audited the financial statements of Vega Ground Rents No3 LLP (the 'LLP') for the period ended 31 December 2019 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Reconciliation of Members' Interests, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the LLP's affairs as at 31 December 2019 and of its loss for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been prepared in accordance with the requirements of the Companies Act 2006 as applicable to limited liability partnerships.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the LLP in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Emphasis of matter – Valuation of investment properties**

We draw attention to the disclosures made in the accounting policies on pages 11 and 12 and in note 7 to the financial statements concerning the fair values of the LLP's investment properties, which in the period ended 31 December 2019 were valued on an actuarial basis by a firm of independent actuaries. In the period ended 30 June 2019 the company's investment properties were valued by the members on the basis of a discounted cash flow of the projected income streams generated by those assets. The investment properties are included in the financial statements at 31 December 2019 at a value of £5.2m (30 June 2019: £37.8m). Substantially all of the £4.4m increase in fair value during the period can be attributed to the change in the valuation basis. As indicated in the notes, considerable volatility is expected to exist in these valuations as detailed in note 7 where the impact of changes in the underlying assumptions are detailed. Our opinion is not modified in respect of this matter.

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

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

- the members' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the members have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the LLP'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.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VEGA GROUND RENTS NO3 LLP (continued)**

### **Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The members are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion 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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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 in this regard.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 applied to LLPs requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

### **Responsibilities of members**

As explained more fully in the members' responsibilities statement set out on page 3, the members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the members 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 members are responsible for assessing the LLP'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 members either intend to liquidate the LLP or to cease operations, or have no realistic alternative but to do so.

### **Auditor's 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 auditor's 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 Financial Reporting Council's website at: <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VEGA GROUND RENTS NO3 LLP  
(continued)**

**Use of our report**

This report is made solely to the LLP's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 as applied to limited liability partnerships. Our audit work has been undertaken so that we might state to the LLP's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the LLP and the LLP's members as a body, for our audit work, for this report, or for the opinions we have formed.

*RSM UK Audit LLP*

Colin Roberts FCA (Senior Statutory Auditor)  
For and on behalf of RSM UK Audit LLP, Statutory Auditor  
Chartered Accountants  
Third Floor  
One London Square  
Cross Lanes  
Guildford  
Surrey  
GU1 1UN

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**VEGA GROUND RENTS NO3 LLP**

**STATEMENT OF COMPREHENSIVE INCOME**

**FOR THE PERIOD ENDED 31 DECEMBER 2019**

		<b>6 month period ending 31 December 2019</b>	<b>15 month period ending 30 June 2019</b>
	<b>Notes</b>	<b>£</b>	<b>£</b>
<b>Turnover</b>	2	89,481	1,761,170
Administrative expenses		(110,809)	(73,788)
Exceptional administrative expenses	4	-	331,356
<b>Operating (loss)/profit</b>		<u>(21,328)</u>	<u>2,018,738</u>
Fair value gain on investment property	7	4,367,269	5,792,593
Interest payable and similar expenses	3	(20)	-
<b>Profit before members' remuneration and profit shares</b>		<u>4,345,921</u>	<u>7,811,331</u>
Profit before members' remuneration and profit shares		4,345,921	7,811,331
Members' remuneration charged as an expense		26,213	(7,811,331)
Cancellation and discharge of debts due from outgoing members		(24,501,954)	-
<b>Loss for the financial period available for discretionary division among members</b>		<u>(20,129,820)</u>	<u>-</u>



**VEGA GROUND RENTS NO3 LLP**

**STATEMENT OF FINANCIAL POSITION (Registration Number: OC360128)**

**AT 31 DECEMBER 2019**

		<b>31 December 2019</b>	<b>30 June 2019</b>
	<b>Notes</b>	<b>£</b>	<b>£</b>
<b>Fixed assets</b>			
Investments	6	-	1
Investment properties	7	5,228,890	37,837,802
		<u>5,228,890</u>	<u>37,837,803</u>
<b>Current assets</b>			
<b>Debtors:</b> amounts falling due within one year	8	9,095	5,257,363
<b>Creditors:</b> amounts falling due within one year	9	(23,406,734)	(27,686,581)
<b>Net current liabilities</b>		<u>(23,397,639)</u>	<u>(22,429,218)</u>
<b>Total assets less current liabilities</b>		<u>(18,168,749)</u>	<u>15,408,585</u>
<b>Net (liabilities)/assets</b>		<u>(18,168,749)</u>	<u>15,408,585</u>
<b>Represented by:</b>			
<b>Loans and other debts due to members within one year</b>			
Other amounts		-	13,447,514
<b>Members' other interests</b>			
Other reserves classified as equity		(18,168,749)	1,961,071
<b>Total members' interests</b>			
Loans and other debts due to members	10	-	13,447,514
Members' other interests		(18,168,749)	1,961,071
		<u>(18,168,749)</u>	<u>15,408,585</u>

The financial statements on pages 7 to 20 were approved by the members and authorised for issue on 24/3/2021 and are signed on their behalf by:

**P A Hallam, on behalf of Vega GR Partner 1 Limited**  
Designated member



**VEGA GROUND RENTS NO3 LLP**

**RECONCILIATION OF MEMBERS' INTERESTS**

**FOR THE PERIOD ENDED 31 DECEMBER 2019**

	<b>Members' Capital (classified as debt) £</b>	<b>Members' other interest £</b>	<b>Total £</b>
<b>Balance at 1 April 2018</b>	5,636,183	1,961,071	7,597,254
Members' remuneration charged as an expense	7,811,331	-	7,811,331
<b>Balance at 30 June 2019</b>	<u>13,447,514</u>	<u>1,961,071</u>	<u>15,408,585</u>
Members' remuneration charged as an expense	(26,213)	-	(26,213)
Loss for the financial period available for discretionary division among members	-	(20,129,820)	(20,129,820)
Members interests after loss for the period	<u>13,421,301</u>	<u>(18,168,749)</u>	<u>(4,747,448)</u>
Drawings	(37,923,255)	-	(37,923,255)
Cancellation and discharge of debts due from outgoing members	24,501,954	-	24,501,954
<b>Balance at 31 December 2019</b>	<u>-</u>	<u>(18,168,749)</u>	<u>(18,168,749)</u>

## **VEGA GROUND RENTS NO3 LLP**

### **NOTES TO THE FINANCIAL STATEMENTS**

#### **FOR THE PERIOD ENDED 31 DECEMBER 2019**

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#### **1. Accounting policies**

##### **General information**

Vega Ground Rents No3 LLP ("the LLP") is a limited liability partnership, domiciled and incorporated in England. The address of the LLP's registered office and principal place of business is Berkeley House, 304 Regents Park Road, London, N3 2JX. The principal activity and nature of business of the LLP during the period was that of property investment.

##### **1.1 Basis of accounting**

These financial statements have been prepared under the historical cost convention as modified to include investment properties at fair value and in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Statement of Recommended Practice "Accounting by Limited Liability Partnerships" (Published December 2018).

The period presented in the accounts is shorter than one year. This has been done to bring the accounting period in line with the LLP's new parent company. As such comparative amounts are not entirely comparable.

The LLP has adopted the amendments to FRS 102 published in the Triennial Review 2017. There are no adjustments to the current or comparative period in relation to this amendment.

##### **1.2 LLP Reduced disclosures**

In accordance with FRS 102, the LLP has taken advantage of the exemptions from the following disclosure requirements:

- Section 7 'Statement of Cash Flows' – Presentation of a Statement of Cash Flow and related notes and disclosures;
- Section 33 'Related Party Disclosures' – Compensation for key management personnel.

The financial statements of the LLP are consolidated in the financial statements of Turing GR Limited. The consolidated financial statements of Turing GR Limited are available from Companies House, Crown Way, Cardiff, CF14 3UZ.

## **VEGA GROUND RENTS NO3 LLP**

### **NOTES TO THE FINANCIAL STATEMENTS**

#### **FOR THE PERIOD ENDED 31 DECEMBER 2019**

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##### **1.3 Going concern**

In preparing the accounts on the going concern basis the members have given consideration to the LLP's result for the period and the LLP's net liability position.

The members have taken into account the potential legislative changes disclosed in the critical accounting estimates and assumptions section of note 1.10 and believe that taking into account the group support mentioned below the LLP is expected to have adequate financial resources to continue as a going concern for a period of one year from the date of signing the financial statements. Following a refinancing transaction in the year by the group of which the LLP is a member, the LLP is now a party to a 61 year fully amortising facility. There are reserves in place to ensure that the necessary liquidity is retained in the structure so that funds are available to meet debt service liabilities as they fall due for the twelve months from which these financial statements are approved. During the year, there was an additional drawdown of £28.0m on the loan facility, which is amortised based on the original loan term of 61 years from 2019. The LLP's immediate parent company, Vega GR Limited, has confirmed that it will provide financial support where needed in the period of 12 months following the signing of the accounts to enable the LLP to pay its debts as they fall due.

For the reasons disclosed in the post balance sheet events note on page 20 the members do not believe the COVID-19 pandemic will have an impact on the LLP's ability to continue as a going concern.

##### **1.4 Functional and presentational currencies**

The financial statements are presented in Sterling, which is also the functional currency of the LLP.

##### **1.5 Turnover**

Turnover comprises rent receivable and other income arising from investment properties. Deed of variation fee income is recognised at the point that the underlying leases are varied.

Rental income is recognised in accordance with the terms of the lease. Inflationary uplifts to rental income are recognised when received. Non-inflationary uplifts are also recognised when received as the members are of the opinion that to recognise the impact of those uplifts on a straight line basis over such long term leases (up to 999 years) would not give a true and fair view as the period between recognition and actual collection would be of sufficient length to cause uncertainty over the value to be collected.

Turnover is recognised at the fair value of the consideration received or receivable for rental income charged to external customers in the ordinary nature of the business. Turnover is shown net of value added tax.

##### **1.6 Investment properties**

The LLP's holding of investment properties is comprised of freehold reversionary interests and these are initially measured at cost and subsequently measured at fair value where a reliable measure of fair value is available. Changes in fair value are recognised in the statement of comprehensive income.

These assets represent interests held in the freehold land on which third party developers have built and sold long leasehold properties. As such these assets generate income in the form of annual ground rents along with other ancillary fixed income streams. Recognising the nature of these investment properties and the lack of a regular market for significant portfolios of such assets, the members are of the opinion that the best approximation to fair value for these properties is provided by a discounted cash flow valuation of the income streams generated by these assets over 150 years.

## VEGA GROUND RENTS NO3 LLP

### NOTES TO THE FINANCIAL STATEMENTS

#### FOR THE PERIOD ENDED 31 DECEMBER 2019

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##### 1.6 Investment properties (continued)

In 2019 freehold reversionary interests have been valued based on an actuarial valuation carried out by a leading firm of third-party actuarial consultants. Any surplus identified over the cost of the asset is accounted for through the Statement of Comprehensive Income.

The members also recognise, given the lack of a regular market for significant portfolios of such assets, that these fair values may not be realised should the LLP seek to dispose of any or all of the investment properties in a short period of time.

In 2018 under the LLP's previous ownership structure the valuation of the entire freehold reversionary interest portfolio was undertaken by the members on the basis of a discounted cash flow of the projected income streams generated by those assets over 50 years.

Further details are given in note 7.

##### 1.7 Taxation

The taxation payable on the partnership profits is solely the liability of the individual members consequently neither partnership taxation nor related deferred taxation arising in respect of the partnership are accounted for in these financial statements.

##### 1.8 Financial instruments

The LLP has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102, in full, to its financial instruments.

Financial assets and financial liabilities are recognised when the LLP becomes a party to the contractual provisions of the instrument, and are offset only when the LLP currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

###### ***Financial assets***

###### *Debtors*

Debtors which are receivable within one year and which do not constitute a financing transaction are initially measured at the transaction price. Debtors are subsequently measured at amortised cost, being the transaction price less any amounts settled and any impairment losses.

###### ***Financial liabilities***

###### *Creditors*

Creditors payable within one year that do not constitute a financing transaction are initially measured at the transaction price and subsequently measured at amortised cost, being the transaction price less any amounts settled.

###### ***Derecognition of financial assets and liabilities***

A financial asset is derecognised only when the contractual rights to cash flows expire or are settled, or substantially all the risks and rewards of ownership are transferred to another party, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party. A financial liability (or part thereof) is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

## VEGA GROUND RENTS NO3 LLP

### NOTES TO THE FINANCIAL STATEMENTS

#### FOR THE PERIOD ENDED 31 DECEMBER 2019

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##### 1.9 Members participation rights

Members' participation rights are the rights of a member against the LLP that arise under the members' agreement (for example, in respect of amounts subscribed or otherwise contributed by remuneration and profits).

Members' participation rights in the earnings or assets of the LLP are analysed between those that are, from the LLP's perspective, either a financial liability or equity, in accordance with section 22 of FRS 102. A member's participation rights including amounts subscribed or otherwise contributed by members, for example members' capital, are classed as liabilities unless the LLP has an unconditional right to refuse payment to members, in which case they are classified as equity.

**Profits are liabilities:** Profits are automatically divided as they arise, so the LLP does not have an unconditional right to refuse payment and the amounts arising that are due to members are in the nature of liabilities. They are therefore treated as an expense and presented as members remuneration charged as an expense in arriving at the result for the relevant period. To the extent that they remain unpaid at the period end, they are shown as liabilities.

The incoming members' have resolved that their profit entitlement for the period is to be allocated first against the net losses created by the waiver of the amounts due to former members. As a consequence, their profit entitlement for the period is nil with the remaining net loss arising from the waiver being carried forward at 31 December 2019 for discretionary allocation in future periods.

**Losses – no restrictions:** Losses are automatically divided as they arise giving the LLP the right to seek payment from members. Therefore they are presented within members' remuneration charged as an expense and, to the extent they remain unpaid and are considered recoverable, shown as debtors in the Statement of Financial Position and as amounts due from members within members' interests.

**Presentation of members' interests:** All amounts due to members that are classified as liabilities are presented within 'Loans and other debts due to members' and, where such an amount relates to current period profits, they are recognised within 'Members' remuneration charged as an expense' in arriving at the relevant year's result. Undivided amounts that are classified as equity are shown within 'Members' other interests'. Amounts recoverable from members are presented as debtors and shown as amounts due from members within members' interests.

**Netting of members' interests:** Where there exists an asset and liability component in respect of an individual member's participation rights, they are presented on a gross basis unless the LLP has both a legally enforceable right to set off the recognised amounts, and it intends either to settle on a net basis or to settle and realise these amounts simultaneously, in which case they are presented net.

**Non-discounted liabilities to members:** The members' participation rights that are classified as liabilities are repayable upon demand, or at short notice (e.g. upon termination of membership), and as such whilst they are financing transactions, the effect of discounting is considered immaterial and so they are not discounted to present value.

##### 1.10 Critical accounting estimates and areas of judgement

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

**1.10 Critical accounting estimates and areas of judgement (continued)**

In preparing these financial statements, the members have made estimates and assumptions concerning the future. The resulting accounting estimates and assumptions will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below.

*Valuation of investment properties*

A key accounting estimate in preparing these financial statements relates to the fair value of the investment properties. In the current period an external professional actuarial valuation has been used as the basis for the fair value of investment properties. Previously the members valued the group's investment properties internally. Details of the basis of these valuations are detailed in note 7. However, the valuation of the group's investment properties is inherently subjective, as it is made on the basis of valuation assumptions which may in future prove not to be accurate, the risk of which is heightened due to the potential legislative changes noted below.

The Government, through the Department for Communities and Local Government, now known as the Ministry for Housing, Communities and Local Government (MHCLG) and the Law Commission, have undertaken a series of consultations on and reviews of the residential property market with a focus on the legal framework surrounding the freehold and leasehold classes of property interests. In January 2021, an announcement was released by the MHCLG on a number of proposed changes to the law governing leasehold enfranchisement. These proposals, which have not yet been enacted, include changes to the rights of leaseholders in relation to leasehold extensions and freehold purchases as well as changes to the manner in which ground rent would subsequently be determined. The implementation of legislative changes arising from these reforms could materially reduce the level of income generated by the portfolio of investment properties.

The members are of the view that the proposed changes would be very damaging to the residential property market and against the interests of consumers and other property owners. The directors have engaged actively in the consultations and with other stakeholders and interested parties in order to convey the opposition of the group of which the LLP is a member to the current proposals. Recent public announcements by government and in the Law Commission's report have recognised that any proposals to make wholesale reforms retrospectively pose real problems with respect to the contravention of human rights legislation. As such the directors' expectation of the impact of reforms will be greatest for future leases and not those already in existence, which will reduce the financial impact on freeholders.

The Competitions and Markets Authority (CMA) is reviewing potential breaches of consumer protection law in the leasehold market. This review is ongoing and covers developers and investment firms, including the group. The group is cooperating with the CMA. On 19 March 2021 the CMA issued consultation letters to two developers outlining the CMA's specific concerns about the terms that double ground rents every 10 or 15 years. The group is already working with leaseholders to vary such lease terms to RPI based review calculations. A significant number of such leases across the group have already been varied in this way.

An intrinsic element of the long-term forecasts is the continuing rental income and lease extension premiums generated by the property assets held. The potential legislative changes raised above may affect these forecasts to the extent that the underlying assumption is no longer valid.

Similarly, the group of which the LLP is a member, debt service requirements are primarily dependent upon this continuing rental income and these potential legislative changes, if introduced in their current form, could affect the group's ability to meet its obligations in the long term.

**VEGA GROUND RENTS NO3 LLP**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE PERIOD ENDED 31 DECEMBER 2019**

**1.10 Critical accounting estimates and areas of judgement (continued)**

*Valuation of investment properties (continued)*

However, the financial consequences of any changes are too uncertain to enable the members to reasonably estimate the impact of such changes on their forecasts. It is assumed that the current methodology continues to represent a fair value of these assets and that the ability to meet the long-term obligations is not compromised.

Further details of the valuation of the investment property are set out in note 7.

**2. Turnover**

An analysis of the LLP's turnover by class of business is as follows:

	<b>6 month Period ending 31 December 2019</b>	<b>15 month Period ending 30 June 2019</b>
	<b>£</b>	<b>£</b>
Rent receivable	78,360	1,108,272
Deed of variation fees	-	480,175
Other income	11,121	172,723
	<u>89,481</u>	<u>1,761,170</u>

The LLP's turnover for the period has been derived from its principal activity wholly undertaken in the United Kingdom.

During the previous year the LLP began the process of varying leases with "10-year doubling" rental uplift clauses to rental uplifts every 10 years calculated by reference to the RPI.

**3. Interest payable and similar expenses**

	<b>6 month Period ending 31 December 2019</b>	<b>15 month Period ending 30 June 2019</b>
	<b>£</b>	<b>£</b>
Other interest	20	-
	<u>20</u>	<u>-</u>



**VEGA GROUND RENTS NO3 LLP**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE PERIOD ENDED 31 DECEMBER 2019**

**4. Operating loss**

	<b>6 month Period ending 31 December 2019</b>	<b>15 month Period ending 30 June 2019</b>
	<b>£</b>	<b>£</b>
Operating loss is stated after charging:		
- Auditors remuneration	10,000	-
- Write off of holdback accrual (exceptional item)	-	(331,356)
	<u>          </u>	<u>          </u>

The audit fees for the period ended 30 June 2019 were borne by the intermediate parent company. Amounts that had been accrued for potential due diligence errors relating to the refinancing of investment property were written off in the prior period as they were no longer required.

**5. Employees and information in relation to members**

The LLP has no employees. The average number of members during the period was 2 (2018:2)

**6. Fixed Asset Investments**

	<b>Investments in subsidiary companies</b>	
	<b>31 December 2019</b>	<b>30 June 2019</b>
	<b>£</b>	<b>£</b>
<b>Cost</b>		
As at 1 July 2019	1	1
Disposals	(1)	-
<b>As at 31 December 2019</b>	<u>          </u>	<u>          </u>
	<u>          </u>	<u>          </u>

During the period the LLP disposed of its interest in E&J3US, a wholly owned, dormant, UK incorporated company. The registered office of the disposed subsidiary is Prospect Place, Moorside Road, Winchester, England, SO23 7RX.

**7. Investment properties**

	<b>Freehold reversionary interests</b>	
	<b>31 December 2019</b>	<b>30 June 2019</b>
	<b>£</b>	<b>£</b>
<b>Fair Value</b>		
As at 1 July	37,837,802	32,055,263
Disposals	(36,976,181)	(10,054)
Fair value gain	4,367,269	5,792,593
<b>As at 31 December</b>	<u>          </u>	<u>          </u>
	<u>          </u>	<u>          </u>

The investment properties represent a portfolio of freehold reversionary interests that generate ground rents as the principal income stream.

At 31 December 2019 the investment properties are valued at £5,228,890 (30 June 2019: £37,837,802).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 DECEMBER 2019

**7. Investment properties (continued)**

The investment properties have been valued using an actuarial valuation performed by a leading firm of financial and actuarial consultants as at 31 December 2019. A fair value gain arose during the period substantially all of which is the result of the change from the members' valuation which discounted cash flows over 50 years to an external actuarial valuation which discounts cash flows over 150 years.

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

The principal assumptions used in the independent actuarial valuation were:

RPI basis for inflation assumptions	- implied inflation vector taken from the Bank of England website;
Residential property inflation	- derived from market rental yields as found in the ARLA report and the UK Government gilt curve;
Risk free discount rate	- a series of rates reflecting the UK government gilt curve as applicable to each cashflow date;
Incidence rates for lease extensions and the price charged	- historic rates and FTT valuation;
Leases with "10 year doubling" rental uplift clauses	- all such leases have been rebased to uplift clauses limited to PI. Expected deed of variation receipts will offset reduced rental income.

The input with the most significant impact on the valuation is the discount rate used. Per the 31 December 2019 actuarial valuations, a 50-basis point increase or decrease in this rate reduces or increases the valuation by 29% and 47% respectively.

During the year deed of variation fees have been received of £Nil (2018: £480,175), as shown in note 2, for varying certain leases with the "10-year doubling" rental uplift clauses to rental uplifts every 10 years calculated by reference to the RPI. As these amounts included within turnover have now been realised, the future expected income streams which form the basis of the investment property valuation have reduced by these amounts.

At 30 June 2019, the basis of the valuation of the investment properties was to project and discount the income streams generated by the portfolio over no more than 50 years. The principal assumptions used in these valuations were:

- Reference gilt rates, provided with reference to directly observable data;
- Funding margins, provided with reference to comparable transactions;
- Taxation – no allowance has been made for taxation in projecting the future revenue flow;
- Projected RPI (Retail Price Index) rate, provided with reference to implied rate from observable data;
- HPI (Household Price Index) or MRR (Market Rent Review) projected rate, provided with reference to historical data using conservative assumptions which are found to be acceptable to lenders in this sector;
- PSEI (Private Sector Earnings Index), this has been set at 0% as a conservative assumption;
- Leases with "10-year doubling" rental uplift clauses – all such leases have been rebased to uplift clauses linked to the RPI. Expected deed of variation fee receipts will offset reduced rental income.

**VEGA GROUND RENTS NO3 LLP**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE PERIOD ENDED 31 DECEMBER 2019**

**7. Investment properties (continued)**

If investment properties were stated on a historical cost basis rather than a fair value basis, the amounts would have been included as follows:

	<b>Freehold reversionary interests</b>	
	<b>31 December 2019</b>	<b>30 June 2019</b>
	<b>£</b>	<b>£</b>
Cost	2,058,615	14,483,842

The LLP's investment property is subject to a debenture and charge in connection with a guarantee provided by the LLP in respect of the indebtedness of the holding company and other related parties (see note 11). Given the very long term nature of the new financing structure entered into during the period by the group of which the LLP is a member, the members consider the previous valuation basis to no longer be appropriate. The change in valuation methodology has given rise to substantially all of the increase in fair value in the period.

**8. Debtors**

	<b>31 December 2019</b>	<b>30 June 2019</b>
	<b>£</b>	<b>£</b>
Trade debtors	297	305,586
Prepayments and accrued income	-	4,951,777
Other receivables	8,798	-
	<u>9,095</u>	<u>5,257,363</u>

**9. Creditors: amounts falling due within one year**

	<b>31 December 2019</b>	<b>30 June 2019</b>
	<b>£</b>	<b>£</b>
Amounts owed to group undertakings	23,389,916	26,454,451
Accruals and deferred income	16,818	1,232,130
	<u>23,406,734</u>	<u>27,686,581</u>

There are no fixed terms of repayment of the parent company loan. There is no interest to be paid on this loan. Despite the loan being repayable on demand it is not the intention for the loan to be repaid within one year.

# VEGA GROUND RENTS NO3 LLP

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE PERIOD ENDED 31 DECEMBER 2019

#### 10. Loans and other debts due to members

	31 December 2019 £	30 June 2019 £
Amounts due to members	-	13,447,514

Loans and other debts due to members rank equally with debts due to ordinary creditors in the event of a winding up.

#### 11. Guarantees

The LLP has given an unlimited guarantee in respect of some of the indebtedness of its holding company Vega GR Limited. The guarantee is supported by a debenture and a charge over the Group's property holdings including the LLP's investment properties. At 31 December 2019 the total amount outstanding including accrued interest payable subject to that guarantee was £213.8m (2018: £Nil). This includes interest payable outstanding at 31 December 2019 totalling £4.8m (2018: £Nil).

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

#### 12. Immediate parent company, ultimate parent company and ultimate controlling party

The smallest group to consolidate these financial statements is Vega GR Limited. Vega GR Limited is domiciled and incorporated in the UK. The immediate parent undertakings are the LLP's two designated members Vega GR Partner 1 Limited and Vega GR Partner 2 Limited. The ultimate UK parent company is Turing GR Limited, which is the largest group for which group accounts containing the Company are prepared. Copies of the financial statements are available from Companies House, Crown Way, Cardiff CF14 3UZ.

The members regard the ultimate holding company to be Euro Investments Overseas Incorporated, a company incorporated in the British Virgin Islands.

The ultimate controlling party is the Tchenguiz Family Trust.

Prior to the acquisition of the LLP by Vega GR Limited on 12 August 2019, the LLP was owned by SF Funding Limited.

#### 13. Related party transactions

The LLP has taken advantage of the exemptions provided by Section 33 of FRS 102 'Related Party Disclosures' and has not disclosed transactions entered into between two or more members of a group, provided that any subsidiary undertaking which is party to the transaction is wholly owned by a member of that group.

Management fees of £100,809 (2018: £Nil) were charged to the LLP in the period by companies related by virtue of common control.

## VEGA GROUND RENTS NO3 LLP

### NOTES TO THE FINANCIAL STATEMENTS

#### FOR THE PERIOD ENDED 31 DECEMBER 2019

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#### 14. Post balance sheet events

##### COVID-19

In March 2020, the COVID-19 pandemic broke in the UK. This event has not impacted on the LLP's performance for the period ended 31 December 2019 or its financial position at 31 December 2019.

The current situation is unprecedented and the wider economic impact is uncertain. However, the members are of the view that because of the very long-term nature of the financing structures of the group of which the LLP is a member and the nature of its core income, being a large number of small ground rent receipts, the impact on the LLP is likely to be minimal.

##### Court rectification

Subsequent to the acquisitions of Vega Ground Rents No 3 LLP (formerly E&J Ground Rents No 3 LLP), Vega Ground Rents No 4 LLP (formerly E&J Ground Rents No 4 LLP) and Vega Ground Rents No 6 LLP (formerly E&J Ground Rents No 6 LLP) (together referred to as "the E&J LLPs") and subsequent to the balance sheet date of these accounts, notification has been received from the vendor of the E&J LLPs that proceedings are being initiated in order to obtain court approval for the rectification of certain documents relating to the E&J LLP acquisitions. The group, including the E&J LLPs, will be a party to the proceedings and the directors are of the opinion that it is more likely than not that rectification will be ordered by the court and these accounts have therefore been prepared on that basis. In the event that proceedings for a court rectification are not successful, the directors are of the opinion that the impact on these accounts would not be material.