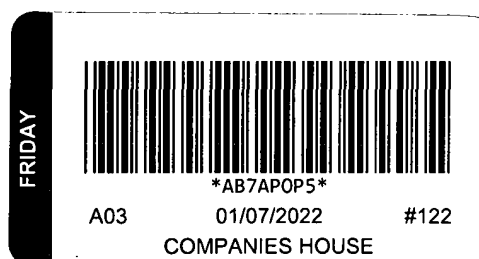


Registered number: 03829939

PROXIMA GR PROPERTIES LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021



PROXIMA GR PROPERTIES LIMITED

COMPANY INFORMATION

Directors	W K Procter C C McGill P Hallam M D Watson (appointed 22 February 2021)
Company secretary	D Lau
Registered number	03829939
Registered office	Berkeley House 304 Regents Park Road London N3 2JX
Independent auditor	BDO LLP Arcadia House Maritime Walk Ocean Village Southampton SO14 3TL

PROXIMA GR PROPERTIES LIMITED

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PROXIMA GR PROPERTIES LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

Introduction

The directors present their strategic report together with the audited financial statements for the year ended 31 December 2021.

Business review

The principal activity of the company during the year was that of property investment.

Overview

The directors are satisfied with the financial position of the company at the year end and look forward to the year ahead with confidence having regard to the matters discussed in the accounting policies starting on page 13.

The directors 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 .

The directors do not recommend the payment of a dividend for the current year and no dividend was paid in the prior year.

Key Performance Indicators of the Company's Strategic Performance

The company's performance is measured primarily by the level of operating profit after adjusting for unrealised gains or losses arising from movements in the valuation of the company's investment properties.

The main element of the company's turnover is ground rent. This has decreased by 1.9% in the year from £13.95m in 2020 to £13.69m in 2021 as shown in note 3. The company is committed to fulfilling its obligations as landlord and is focused on ensuring ground rent is reviewed in accordance with the lease agreements.

The company's operating profit for the year after adjusting for unrealised profits arising from a decrease in the valuation of investment properties was £16.95m (2020: £16.43m). The valuation of investment properties for the year has resulted in a fair value loss totalling £212.7m (2020: £458.9m gain). The decrease in fair value in the year is primarily due to an increase in risk free discount rates. The discount rates increasing by 0.27% year on year. The impact of risk free discount rate movements on investment properties is detailed further in note 9.

Financial Review

The company's other income streams during the year consisted of transfer and administration fees of £3.79m (2020: £3.50m), insurance commissions of £718k (2020 - £756k), HMO income of £466k (2020 - £463k) and lease extension premiums of £1.97m (2020: £1.62m).

Risk Analysis

Exposure to non-payment of ground rent, or 'tenant credit risk', is not considered a significant risk on the grounds that rental income consists of a very high volume of individually immaterial amounts, and that, ultimately, non-payment of ground rent means that full ownership of the property would, as a last resort, revert to the company as freehold or long leasehold owner. At the year end, total trade debtors which include rent arrears, were £851k (2020: £755k).

The Freehold and leasehold investment properties have been valued at fair value in accordance with FRS 102 'Accounting for Investment properties'.

PROXIMA GR PROPERTIES LIMITED

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

The fair value of the investment properties is calculated by discounting the forecast long term cash flows generated by the investment properties. These cash flows are risk adjusted by the actuaries that perform the valuation and then a risk-free discount rate is applied to calculate the present day value of the future cash flows. The UK Gilt rate is conventionally accepted as the risk-free rate. The company's valuation of its investment property portfolio is very sensitive to changes in the discount rate, and inflation. The valuation of the properties will decrease if Gilt rates increase and vice versa. This sensitivity is set out in note 9. However, market value risk in the short term is not considered a significant risk as there are no loan to value covenants within the current loan arrangements.

Investment Properties

The investment properties included in the financial statements at a value of £2.72bn (2020: £2.93bn) were valued by a leading firm of financial and actuarial consultants as at 6 October 2015. The directors have reviewed the actuarial valuation as at 6 October 2015 and based on market changes in the intervening period have determined the valuation as at 31 December 2021. This has given rise to a revaluation loss in the year of £212.72m (2020: gain £458.90m). The valuation loss was driven by a number of factors most notably the discount rate, RPI inflation and property inflation. The valuation is sensitive to changes to each of these factors.

Prospects

The group is confident that the long term future housing market will enable income streams within the business to remain resilient in the forthcoming years.

Public pledge for leaseholders

In June 2019 a number of residential real estate developers and freeholders, of which the company was a party, 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 company's appointed agent, Estates & Management Limited, a company related by virtue of common control and directors, 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.

PROXIMA GR PROPERTIES LIMITED

**STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021**

Financial risk management

Cash flow risk

The company's policy on funding capacity is to ensure that it has sufficient long-term funding and committed bank facilities in place to meet foreseeable peak borrowing requirements.

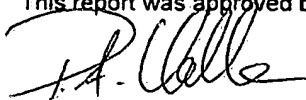
Going concern

Strategic matters are reviewed by the Board of Directors.

The Directors have prepared detailed projections for a period of at least 12 months from the date of signing the accounts, and notwithstanding an expected reduction in ancillary income in the company for the remainder of 2022, these show that the company is expected to be able to meet all its liabilities as they fall due. Further details on legislative reforms are given in note 2.3.

The directors are confident the company will continue as a going concern for the foreseeable future and meet all of its liabilities as they fall due.

This report was approved by the board and signed on its behalf.



P Hallam
Director

Date: 29 June 2022

PROXIMA GR PROPERTIES LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

The directors present their report and the financial statements for the year ended 31 December 2021.

Directors

The directors who served during the year were:

W K Procter
C C McGill
P Hallam
M D Watson (appointed 22 February 2021)

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies for the Company's financial statements and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Disclosure of information to auditors

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware and;
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Insurance of company officers

The company has maintained insurance throughout the year for its directors and officers against the consequences of actions which may be brought against them in relation to their duties for the company.

PROXIMA GR PROPERTIES LIMITED

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021**

Auditors

The auditors, BDO LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

Strategic Report

The review of the business, future developments, recommended dividend, other risks & uncertainties, Financial risk management and KPI analysis are included in the Strategic Report on pages 1 - 3.

This Directors' Report, which has been prepared in accordance with the requirements of the Companies Act 2006, has been approved by the Board of Directors.

This report was approved by the board and signed on its behalf.



P Hallam
Director

Date: 29 June 2022

PROXIMA GR PROPERTIES LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PROXIMA GR PROPERTIES LIMITED

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Proxima GR Properties Limited ("the Company") for the year ended 31 December 2021 which comprise the Statement of Comprehensive income, the Statement of Financial Position, the Statement of Changes in Equity 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 Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company 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.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

PROXIMA GR PROPERTIES LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PROXIMA GR PROPERTIES LIMITED (CONTINUED)

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report and financial statements other than the financial statements and our auditor's report thereon. 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. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

Other Companies Act 2006 reporting

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.

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

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

PROXIMA GR PROPERTIES LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PROXIMA GR PROPERTIES LIMITED (CONTINUED)

Responsibilities of Directors

As explained more fully in the Directors responsibilities statement, the Directors 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 Directors 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 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 Company or to cease operations, or have no realistic alternative but to do so.

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 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.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

Based on our understanding of the Company, we considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management incentives and opportunities for fraudulent manipulation of the financial statements including management override and considered that the principal risks were related to the posting of inappropriate journal entries.

Procedures performed by the audit team included:

- Discussions with management regarding known or suspected instances of non-compliance with laws and regulations; and
- Assessing journal entries as part of our planned audit approach.

We also addressed the risk of management override of internal controls, including evaluating whether there was a risk of bias by the directors that represented a risk of material misstatement due to fraud.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

PROXIMA GR PROPERTIES LIMITED

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PROXIMA GR PROPERTIES LIMITED
(CONTINUED)**

A further description of our responsibilities is available on the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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

DocuSigned by:

David I Anson

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David I'Anson (Senior Statutory Auditor)

For and on behalf of BDO LLP, statutory auditor

Southampton

Date 29 June 2022

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

PROXIMA GR PROPERTIES LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021**

	Note	2021 £000	2020 £000
Turnover	3	20,634	20,299
Administrative expenses		(2,755)	(2,848)
Loss on disposal of investment property		(925)	(1,019)
Fair value movements on investment properties	9	(212,721)	458,902
Operating (loss)/profit	5	(195,767)	475,334
Interest payable and similar expenses	4	(6,328)	(7,206)
(Loss)/profit before tax		(202,095)	468,128
Tax on (loss)/profit	7	(68,852)	(116,244)
(Loss)/profit for the financial year		(270,947)	351,884

There was no other comprehensive income for 2021 (2020:£000NIL).

The notes on pages 13 to 28 form part of these financial statements.

PROXIMA GR PROPERTIES LIMITED
REGISTERED NUMBER: 03829939

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2021

	Note	2021 £000	2020 £000
Fixed assets			
Investments	8	518	518
Investment property	9	2,715,688	2,931,115
		<u>2,716,206</u>	<u>2,931,633</u>
Current assets			
Debtors: amounts falling due within one year	10	1,003	839
Creditors: amounts falling due within one year	11	(4,095)	(3,026)
Net current liabilities		<u>(3,092)</u>	<u>(2,187)</u>
Total assets less current liabilities		<u>2,713,114</u>	<u>2,929,446</u>
Creditors: amounts falling due after more than one year	12	(238,271)	(250,565)
Provisions for liabilities			
Deferred tax	13	(447,930)	(381,021)
		<u>(447,930)</u>	<u>(381,021)</u>
Net assets		<u><u>2,026,913</u></u>	<u><u>2,297,860</u></u>
Capital and reserves			
Called up share capital		38,000	38,000
Other reserves		595,516	595,516
Profit and loss account		1,393,397	1,664,344
		<u><u>2,026,913</u></u>	<u><u>2,297,860</u></u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf by



P Hallam
Director

Date: 29 June 2022

The notes on pages 13 to 28 form part of these financial statements.

PROXIMA GR PROPERTIES LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021**

	Called up share capital £000	Capital reserve £000	Profit and loss account £000	Total equity £000
At 1 January 2020	38,000	595,516	1,312,460	1,945,976
Profit for the year	-	-	351,884	351,884
At 1 January 2021	38,000	595,516	1,664,344	2,297,860
Loss for the year	-	-	(270,947)	(270,947)
At 31 December 2021	38,000	595,516	1,393,397	2,026,913

The notes on pages 13 to 28 form part of these financial statements.

PROXIMA GR PROPERTIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

1. General information

Proxima GR Properties Limited ("the company") is a private company limited by shares, domiciled and incorporated in England. The address of the company's registered office and principal place of business is Berkeley House, 304 Regents Park Road, London, N3 2JX. The principal activity of the company during the year was that of property investment.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The financial statements present information about the company as an individual undertaking and not about its group. The company has not prepared consolidated financial statements as it is exempt from the requirement to do so by section 400 of the Companies Act 2006 as it is a wholly owned subsidiary of Betelgeuse Limited and its results are included in the consolidated financial statements of that entity.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies.

The following principal accounting policies have been applied:

2.2 Reduced disclosures

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

- Section 4 'Statement of Financial Position' - Reconciliation of the opening and closing number of shares.
- Section 7 'Statement of Cash Flows' - Presentation of a Statement of Cash Flow and related notes and disclosures.
- Section 11 'Basic Financial Instruments' & Section 12 'Other Financial Instrument Issues' - Carrying amounts, interest income/expense and net gains/losses for each category of financial instrument; basis of determining fair values; details of collateral, loan defaults or breaches, details of hedges, hedging fair value changes recognised in profit or loss and in other comprehensive income.
- Section 33 'Related Party Disclosures' - Compensation for key management personnel.

PROXIMA GR PROPERTIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

2. Accounting policies (continued)

2.3 Going concern

The company is party to a group cross collateralised funding structure along with its fellow subsidiaries in the group headed by Beta Centauri Limited. The directors have assessed the operation of the structure and have determined that the company has, or can expect to have, sufficient working capital for its needs for at least 12 months from the date of approval of these financial statements. In view of this the directors consider it appropriate for the financial statements to be prepared on a going concern basis. The company is party to cross collateralised loans totalling £769.8m as at 31 December 2021 (2020: £757.2m). The cross collateralised loan balance is due for repayment in January 2080.

The facility is a 65 year fully amortising facility and there are reserves in place to ensure that the necessary liquidity is retained in the structure so that funds are available to meet liabilities as they fall due for the foreseeable future.

In addition to the matters described above, in arriving at their conclusion the Directors have also considered, Leasehold reform, Building Safety legislation and wider loan covenant compliance:

Leasehold reform

The Government has introduced legislation, the Leasehold Reform (Ground Rent) Act 2022, preventing the inclusion of a ground rent in excess of a peppercorn on new residential long leases. The Act comes into force on 30 June 2022 for leases on non-retirement properties and on 1 April 2023 for leases on retirement properties. The legislation does not apply retrospectively although it does create restrictions on the company's ability to generate rental income beyond the term of current leases.

As such, the impact of preventing the creation of future ground rents under the Act is not expected to have a material effect on the company's ability to meet its liabilities as they fall due for a reasonably foreseeable period.

Building Safety legislation

The Building Safety Act has been introduced by Parliament in April 2022 and is intended to strengthen and improve different elements of the building safety regime. It is also intended to create a framework for allocating responsibility for funding liabilities arising from certain building safety defects. It is understood that Parliament's intention is that in creating clarity on the funding of such liabilities it will ameliorate the problems faced by leaseholders in affected properties.

On buildings over 18 metres in height it is expected that either Government or developer funding will be available to ensure necessary remediation of these properties can be undertaken. For buildings between 11 metres and 18 metres in height the developer is expected to be primarily responsible for funding the necessary remediation. Should the developer not be available to provide funding the freeholder may become responsible for funding subject to certain criteria that is yet to be established. Such criteria are expected to be clarified through secondary legislation created under delegated powers given to the relevant Minister of State.

The directors note that the Government is due to announce shortly details of the application of funds expected to be raised by the Building Safety Levy for the remediation of buildings in this height range where the developer is unable to provide the necessary funding. It is expected that in order to ensure the remediation of such buildings in as timely a manner as possible that these funds will be available as a priority over freeholder contributions.

PROXIMA GR PROPERTIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

2. Accounting policies (continued)

2.3 Going concern (continued)

The directors, having given consideration to the provisions of the Act, the uncertainty over how and when these provisions will be implemented and their impact on the company do not believe that the Act has a material effect on the company's ability to meet its liabilities as they fall due for a reasonably foreseeable period of time. In the structure so that funds are available to meet debt service liabilities as they fall due for the upcoming 52 week period.

Cross default guarantee

Betelgeuse Limited is the parent company of the smallest group for which consolidated financial statements are prepared of which the company is a member. Under the terms of Betelgeuse Limited's long-term loan facility the Company and each of the members of the Group are, since August 2019, party to a cross-default arrangement between Betelgeuse Limited and Vega GR Limited. Vega GR Limited is a related group company, which has a similar long term loan facility with the same Lender.

The cross-default arrangements apply equally to both Betelgeuse Limited and Vega GR Limited, and their respective group companies, and are triggered by certain breaches of loan covenant in their respective facilities. Both Betelgeuse Limited and Vega GR Limited are expected to remain in compliance with all loan covenants for the reasonably foreseeable future. Further details are provided in note 15.

2.4 Functional and presentational currencies

The financial statements are presented in sterling which is also the functional currency of the company.

2.5 Turnover

Turnover comprises of rent receivable and other income arising from investment properties.

Rental income is recognised in accordance with the terms of the lease. 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.

PROXIMA GR PROPERTIES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

2. Accounting policies (continued)

2.6 Investment properties

The group's holding of freehold reversionary interests is classified as investment properties and is initially measured at cost and subsequently measured at fair value where a reliable measure of fair value is available without undue cost or effort. 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 income streams.

Recognising the nature of these investment properties and the lack of a regular market for significant portfolios of such assets, the directors 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.

The valuation of the entire freehold reversionary interest portfolio is undertaken by the directors based on periodic actuarial valuations carried out by a leading firm of third party actuarial consultants.

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

Further details are given in note 9.

2.7 Investments

Investments in subsidiaries are initially measured at the cost of acquisition and subsequently measured at cost less any accumulated impairment losses. Changes in fair value are recognised in other comprehensive income.

Investments in subsidiaries are assessed for impairment at each reporting date. Any impairment losses or reversals of impairment losses are recognised immediately in other comprehensive income.

PROXIMA GR PROPERTIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

2. Accounting policies (continued)

2.8 Current and deferred taxation

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

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the reporting date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

2.9 Financial instruments

The company 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 all of its financial instruments.

Financial assets and financial liabilities are recognised when the company becomes a party to the contractual provisions of the instrument, and are offset only when the company 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

Trade debtors

Trade debtors which are receivable within one year and which do not constitute a financing transaction are initially measured at the transaction price. Trade 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.

PROXIMA GR PROPERTIES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

2. Accounting policies (continued)

2.9 Financial instruments (continued)

Borrowings

Borrowings are initially recognised at the transaction price, including transaction costs, and subsequently measured at amortised cost using the effective interest method. Interest expense is recognised on the basis of the effective interest method and is included in interest payable and other similar charges.

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.

2.10 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.

Critical accounting estimates and assumptions

In preparing these financial statements, the directors 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 year 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. The group uses periodic external professional actuarial valuations as a basis for determining the directors' estimation of the fair value of the investment properties. 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 and the enacted changes noted below.

PROXIMA GR PROPERTIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

2. Accounting policies (continued)

The Government, through the Department for Levelling Up, Housing and Communities and its predecessor the Ministry for Housing, Communities and Local Government (MHCLG) along with 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 largely not yet been enacted but some of which are included in the Leasehold Reform (Ground Rent) Act (which received Royal Assent on 8 February 2022), 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 changes introduced by the Leasehold Reform (Ground Rent) Act will impair the ability of the freeholder and leaseholder to agree for the continuation of ground rent when extending the lease beyond the current lease term. It is unclear at this time to what extent how this change will reduce the future cash flows of the group. The implementation of the legislative changes arising from these reforms could materially reduce the level of income generated by the portfolio of investment properties.

The directors are of the view that the proposed changes, if introduced in total, 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 group's opposition to the current proposals. 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.

The directors are of the opinion that the impact of the reforms are likely to be greatest for future leases and not those already in existence.

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 a number of related parties of the company. These related parties are 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 CMA has asked the related parties to enter into undertakings that would effectively remove such doubling ground rent review clauses from these lease contracts that were created by these two developers. The related parties have been given the opportunity to respond to the CMA. The related parties of the group are already working with leaseholders to vary such lease terms to RPI based calculations. A significant number of such leases 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 by these subsidiaries. The potential legislative changes raised above may affect these forecasts to the extent that the underlying assumption is no longer valid.

Similarly, the group's 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.

However, the financial consequences of any changes are too uncertain to enable the directors 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 group's ability to meet its long-term obligations is not compromised.

Further details of the valuation of the investment property are set out in note 9.

PROXIMA GR PROPERTIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

2. Accounting policies (continued)

Deferred taxation

Deferred tax liabilities are assessed on the basis of assumptions regarding the future, the likelihood that assets will be realised and liabilities will be settled and estimates as to the timing of those future events and as to the future tax rates that will be applicable.

3. Turnover

An analysis of turnover by class of business is as follows:

	2021 £000	2020 £000
Rental receivable	13,689	13,954
Other income from investment properties	6,945	6,345
	<u>20,634</u>	<u>20,299</u>

All turnover arose within the United Kingdom.

At 31 December 2021, the expected future lease rental receipts under non-cancellable leases were as follows:

	2021 £000	2020 £000
Less than one year	14,289	13,904
Between one and five years	61,145	59,725
More than five years	2,297,837	2,313,546
	<u>2,373,271</u>	<u>2,387,175</u>

The receipts under the non-cancellable leases are ground rent payments made by the tenants holding leasehold interests issued against the company's investment properties. These leases provide the leaseholder with occupational rights to the property for the duration of the lease to the exclusion of the company. The tenants, where they meet qualifying criteria, do have the right under UK legislation to extend or cancel the lease in return for a premium payable to the freeholder. The company has only calculated the rental receipts due from these leases for the first 61 years of the lease duration as it is not practical to calculate expected receipts from beyond this time.

PROXIMA GR PROPERTIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

4. Interest payable and similar expenses

	2021 £000	2020 £000
Interest on parent company loan	6,307	7,186
Finance costs recharged	21	20
	<u>6,328</u>	<u>7,206</u>

5. Operating (loss) / profit

The operating (loss) / profit is stated after charging:

	2021 £000	2020 £000
Auditors' remuneration	<u>9</u>	<u>9</u>

6. Employees

There were no employees during the year other than the directors. The directors are remunerated by the related party Fairhold Services Limited and this is recharged to the company as part of the management charge from Estates & Management Limited. This management charge, which in 2021 amounted to £2.40m (2020: £2.37m) also includes a recharge of administration costs borne by Fairhold Services Limited on behalf of the company and it is not possible to identify separately the amount relating to the directors' remuneration.

PROXIMA GR PROPERTIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

7. Taxation

	2021 £000	2020 £000
Corporation tax		
Current tax on profits for the year	944	-
Adjustments in respect of previous periods	999	-
	<u>1,943</u>	<u>-</u>
Total current tax	<u>1,943</u>	<u>-</u>
Deferred tax		
Movement on potential chargeable gain liability	(53,180)	116,244
Effect of change in tax rate	120,089	-
	<u>66,909</u>	<u>116,244</u>
Total deferred tax	<u>66,909</u>	<u>116,244</u>
Taxation on profit on ordinary activities	<u>68,852</u>	<u>116,244</u>

PROXIMA GR PROPERTIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

7. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2020 - *higher than*) the standard rate of corporation tax in the UK of 19% (2020 - 19%). The differences are explained below:

	2021 £000	2020 £000
(Loss)/profit on ordinary activities before tax	(202,095)	468,128
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2020 - 19%)	(38,398)	88,944
Effects of:		
Effect of change in tax rate	120,089	-
Adjustments to tax charge in respect of prior periods	999	-
Chargeable gains adjustment	(12,587)	29,053
Tax losses utilised	(1,115)	(1,003)
Other timing differences, incl. capital allowances	(190)	(1,277)
Capital gains transferred to a related party	-	194
Corporate interest restriction	54	333
Total tax charge for the year	68,852	116,244

Factors that may affect future tax charges

The company has estimated tax losses of £25.2m (2020: £33.2m) available to carry forward against future profits. No deferred tax asset has been recognised in respect of these losses due to uncertainty of recovery.

In the current period, the Finance Act 2021 was enacted and included legislation to increase the main rate of tax to 25%. As this change was substantively enacted at the balance sheet date deferred tax is recognised at 25% in the current period (2020: 19%).

PROXIMA GR PROPERTIES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

8. Fixed asset investments

	Investments in subsidiary companies £000
Cost	
At 1 January 2021	518
At 31 December 2021	518

Tor Sands Freehold Limited

Registered in England and Wales No. 05857041 - 100% of issued share capital held. The company's principal activity during the year was that of an investment company. Its registered office is Berkeley House, 304 Regents Park Road, London, N3 2JX.

9. Investment property

	Freehold investment property £000
Valuation	
At 1 January 2021	2,931,115
Disposals	(2,706)
Loss on revaluation	(212,721)
At 31 December 2021	2,715,688

PROXIMA GR PROPERTIES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

9. Investment property (continued)

The freehold investment properties represent a portfolio of reversionary interests. The investment properties were valued on an actuarial basis by a leading firm of independent financial and actuarial consultants as at 6 October 2015. The directors have reviewed the actuarial valuation as at 6 October 2015 and, based on market changes in the intervening period, have determined their own valuation at the year end.

The directors, in carrying out their valuation at 31 December 2021, have reviewed the basis of the 6 October 2015 actuarial valuation and concluded that there have been changes in the key valuation drivers since the actuarial valuation. Accordingly, the directors have assessed these changes to the valuation drivers and, based on the sensitivities noted in the 2015 valuation, consider the updated valuation of the freehold reversionary interest investment properties of £2.72bn at 31 December 2021 (2020: £2.93bn) is appropriate for adoption for the purposes of these financial statements.

The basis of the most recent 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.
- Taxation - no allowance has been made for taxation in projecting the future revenue flow.

The assumptions with the most significant impact on the valuation are the discount rate and RPI:

- A 1% increase or decrease in the discount rate will reduce or increase the valuation by 39% and 94% respectively.
- A 1% increase or decrease in RPI will increase or reduce the valuation by 63% and 29% respectively.

If the Investment properties had been accounted for under the historic cost accounting rules, the properties would have been measured as follows:

	2021 £000	2020 £000
Historic cost	<u>873,110</u>	<u>874,888</u>

The company's investment property is subject to a debenture and charge in connection with a guarantee provided by the company in respect of the indebtedness of the holding company and other related parties (see note 16).

PROXIMA GR PROPERTIES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

10. Debtors

	2021 £000	2020 £000
Trade debtors	851	755
Tax recoverable	7	7
Prepayments and accrued income	1	-
Sundry debtors	144	77
	<u>1,003</u>	<u>839</u>

11. Creditors: Amounts falling due within one year

	2021 £000	2020 £000
Corporation tax	944	-
Accruals and deferred income	3,151	3,026
	<u>4,095</u>	<u>3,026</u>

12. Creditors: Amounts falling due after more than one year

	2021 £000	2020 £000
Amounts owed to parent undertaking	<u>238,271</u>	<u>250,565</u>

The loan from the parent company is due for repayment in 2085. Interest is charged at 6 month Libor +2.35%.

13. Deferred taxation

	2021 £000
At beginning of year	381,021
Charged to profit or loss	66,909
At end of year	<u>447,930</u>

PROXIMA GR PROPERTIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

13. Deferred taxation (continued)

The provision for deferred taxation is made up as follows:

	2021 £000	2020 £000
Deferred tax on assets measured at fair value	447,930	381,021

The company has an unprovided deferred tax asset in respect of losses available to carry forward amounting to £6.3m (2020: £6.3m).

14. Share capital and reserves

Share capital

	2021 £000	2020 £000
Allotted, called up and fully paid		
38,000,001 (2020 - 38,000,001) Ordinary shares of £1.00 each	38,000	38,000

Ordinary share rights

The company's ordinary shares, which carry no right to fixed income, each carry the right to one vote at general meetings of the company.

Reserves

Reserves of the company represent the following:

Retained earnings

Cumulative profit and loss net of distributions to owners.

Capital reserve

The capital reserve represents reserves generated from historic waivers of related party balances.

15. Contingent liabilities

At the year end the company has given a cross default guarantee in respect of financial indebtedness of a related group company, Vega GR Limited and its subsidiary companies. These parties are related by virtue of common directors and common control. The total amount outstanding subject to these guarantees at 31 December 2021 was £298,438,402 (31 December 2020: £295,442,263).

The Building Safety Act has been introduced in April 2022, and costs arising from building safety defects could potentially become liabilities of building owners. However, as noted in the Going Concern note on page 14 the impact of these legislative changes is too uncertain to reasonably estimate the potential liability that could arise for the building owners in the group.

PROXIMA GR PROPERTIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

16. Guarantees

The company has given an unlimited guarantee in respect of some of the indebtedness of its holding company Betelgeuse Limited. The guarantee is supported by a debenture and a charge over the company's investment properties. At 31 December 2021 the total amount outstanding subject to that guarantee was £769.8m (2020: £757.2m).

17. Related party transactions

The company 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 £2.40m (2020: £2.37m) were charged to the company in the year by Estates & Management Limited, a company related by virtue of common control and common directors.

18. Immediate parent company, ultimate parent company and ultimate controlling party

The company's immediate parent company is Betelgeuse Limited which is the smallest group for which group accounts containing this company are prepared. Betelgeuse Limited is domiciled and incorporated in the UK. The ultimate UK parent company is Beta Centauri Limited, which is the largest group for which group accounts containing this company are prepared. Copies of the financial statements are available from Companies House, Crown Way, Cardiff, CF14 3UZ.

The directors 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 Geneva Trust Company (GTC) SA as trustees of the Tchenguiz Family Trust.