Company No: 03697440

FAIRHOLD HOMES (NO.6) LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 OCTOBER 2022

FAIRHOLD HOMES (NO.6) LIMITED

DIRECTORS AND OFFICERS

DIRECTORS

S J Lake
G J Parcell

SECRETARY

Law Debenture Corporate Services Limited

REGISTERED OFFICE

Berkeley House
304 Regents Park Road
London
N3 2JX

INDEPENDENT AUDITOR

Mazars LLP
30 Old Bailey
London
EC4M 7AU

The directors submit their report and the financial statements for the year ended 31 October 2022.

Principal activity

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

Business review

There were no changes in the company's investment property portfolio in the year.

Total income was satisfactory in the year. Ground rent incomes grew as a result of the application of contractual inflationary increases. Warden apartment rental income increased as a result of inflationary rental increases partly offset by a small number of properties dispensing with the warden residential services. Transfer and related fees increased as Government restrictions imposed as a result of the Covid-19 epidemic were relaxed and lessees were able to market their properties again.

Results and Dividends

The loss for the year before tax amounted to £14.6m *(2021: £12.3m)*. The movement in results year-on-year arise principally as a result of adjustments to the fair value of investment properties in the current and prior year, details of which are set out below.

Investment properties

The investment properties have been valued by the directors at £30.8m *(2021: £46.1m)* having regard to valuation advice from professional advisers, and market information. The directors note that the valuation of the portfolio is highly sensitive to market base rates and spreads of long-dated debt financing, and further note that at the date of the valuation, 31 October 2022, these had worsened and remained volatile. The accounting policy for investment properties is set out on page 14 of these financial statements.

Details of the investment properties are set out in note 7 to these financial statements.

Going concern

In preparing the accounts on the going concern basis the directors have given consideration to the company's results for the year and its net assets position.

Liabilities and Debt Servicing

The company holds unsecured loan notes due to Fernando SSN plc, a member of the group. These notes total £29,185,880 and mature in 2026, bearing interest at SONIA plus a margin as set out in note 10. Net income from the company is used to service this debt and any excess amounts after such servicing is used to repay the loan notes' principal. In the event of the company's net income being insufficient to service the debt fully then the deficit may be deferred at the election of Fernando SSN plc.

As set out in note 8, the company has also made loans to Fernando HoldCo Limited, another group undertaking, to allow it to pay various fees and expenses necessary for the operation of the group.

Impact of world events on interest rates

The development of events in the Ukraine coupled with the recovery from the pandemic has caused inflation to increase which, in turn, has increased interest rates. This impacts the company in two ways: in revenue terms, this increases income which is inflated by RPI and in some cases indirectly by CPIH; in cost terms, the company's debt servicing liabilities increase, being based on interest rates. Due to the relative impact of these two elements, the directors note that with a significant shift in rates, the interest under the SD notes may not be affordable. This would lead to the company having to request a deferment from the group company, Fernando SSN plc, which in turn would result in penalty interest as per the terms of the SD notes.

Impact on cashflows

Historically the company has settled all interest due in full and made repayments of principal. Given the significant and sustained increases in interest rates, and the uncertainty around future rates due to current world events, the directors have modelled a range of cashflows at different forecast interest rates that show the company will be unable to settle in full the interest due on its SD notes during the next year. The company will therefore need to defer some of its interest payable, as described above, and incur penalty interest.

Conclusion

As this deferral is specifically allowed under the terms of the SD notes, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for at least one year from the date of signing the financial statements, and thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

Post balance sheet events

Interest rate rises

As set out in note 18 the sharp and steady increase in interest rates since the year end means that the company will have insufficient funds to satisfy in full the amount of interest due on the SD notes. The company will therefore need to defer some of its interest payable, as described above, and incur penalty interest.

Economic environment

The directors note that since the investment property valuation was undertaken as at 31 October 2022, market base rates and spreads have become less volatile and this may impact on future valuations.

Directors

The directors who served during the year were as follows:

S J Lake

G J Parcell

Statement of directors' responsibilities

The directors are responsible for preparing 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors 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 company will continue in business.

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

Statement as to disclosure of information to the auditor

The directors who were in office on the date of approval of these financial statements have confirmed that, as far as they are aware, there is no relevant audit information of which the auditor is unaware. The directors have confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

Insurance of Company Officers

The company maintains insurance for its directors and officers against the consequences of actions which may be brought against them in relation to their duties for the company, through the provision of a policy held by Fernando HoldCo Limited.

Auditor

This report has been prepared in accordance with the provisions applicable to companies entitled to the small companies' exemption. The directors have also taken the available exemption from the requirement to prepare a strategic report.

On behalf of the Board:

Graham Parcell (Apr 28, 2023 11:12 GMT+1)

G J Parcell
Director

28 April 2023

Independent Auditor's Report to the members of Fairhold Homes (No.6) Limited

Opinion

We have audited the financial statements of Fairhold Homes (No.6) Limited (the 'company') for the year ended 31 October 2022 which comprise the Statement of Comprehensive Income, the Balance Sheet, 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 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 company's affairs as at 31 October 2022 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.

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

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.

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 directors are responsible for the other information contained within the annual report. 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.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In 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.
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemption in preparing the Directors' Report and from the requirement to prepare a Strategic Report.

Responsibilities of Directors

As explained more fully in the directors' responsibilities statement set out on page 3, 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.

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 the financial statements.

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

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.

Based on our understanding of the company and its industry, we considered that non-compliance with the following laws and regulations might have a material effect on the financial statements: anti-money laundering regulation and property laws and regulations.

To help us identify instances of non-compliance with these laws and regulations, and in identifying and assessing the risks of material misstatement in respect to non-compliance, our procedures included, but were not limited to:

- Inquiring of management and, where appropriate, those charged with governance, as to whether the company is in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- Inspecting correspondence, if any, with relevant licensing or regulatory authorities;
- Communicating identified laws and regulations to the engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- Considering the risk of acts by the company which were contrary to applicable laws and regulations, including fraud.

We also considered those laws and regulations that have a direct effect on the preparation of the financial statements, such as tax legislation and the Companies Act 2006.

In addition, we evaluated the directors' and management's incentives and opportunities for fraudulent manipulation of the financial statements, including the risk of management override of controls, and determined that the principal risks related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, revenue recognition (which we pinpointed to the cut off assertion) and significant one-off or unusual transactions.

Our audit procedures in relation to fraud included but were not limited to:

- Making enquiries of the directors and management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud; and
- Addressing the risks of fraud through management override of controls by performing journal entry testing.

Independent Auditor's Report to the members of Fairhold Homes (No.6) Limited *(continued)*

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of the audit 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.

Gareth Jones (Senior Statutory Auditor) for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
30 Old Bailey
London
United Kingdom
EC4M 7AU

28 April 2023

FAIRHOLD HOMES (NO.6) LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 OCTOBER 2022

	Notes	2022 £	*2021* *£*
Rent receivable	1	972,709	*1,009,328*
Administrative expenses		(303,391)	*(323,749)*
Other operating income		602,597	*634,652*
Operating profit		1,271,915	*1,320,231*
Fair value loss on investment property	7	(15,293,500)	*(13,408,000)*
Interest receivable and similar income	2	19,727	*12,596*
Interest payable and similar expenses	3	(636,765)	*(238,676)*
Loss before taxation	4	(14,638,623)	*(12,313,849)*
Taxation	6	1,338,182	*(4,559,164)*
Loss after taxation		(13,300,441)	*(16,873,013)*
Other comprehensive income		-	-
Total comprehensive loss for the year		(13,300,441)	*(16,873,013)*

The Statement of Comprehensive Income has been prepared on the basis that all operations are continuing.

The notes on pages 12 to 24 form part of the financial statements.

FAIRHOLD HOMES (NO.6) LIMITED

STATEMENT OF FINANCIAL POSITION *(Company Registration Number: 03697440)*

AT 31 OCTOBER 2022

	Notes	2022 £	*2021 £*
Fixed assets			
Investment properties	7	30,801,500	*46,095,000*
Current assets			
Debtors due within one year	8	1,297,748	*1,174,579*
		1,297,748	*1,174,579*
Creditors: amounts falling due within one year	9	(463,153)	*(441,660)*
Net current assets		834,595	*732,919*
Total assets less current liabilities		31,636,095	*46,827,919*
Creditors: amounts falling due after more than one year	10	(29,185,880)	*(29,739,081)*
Provision for liabilities	11	(761,958)	*(2,100,140)*
Net assets		1,688,257	*14,988,698*
Capital and reserves			
Called up share capital	12	834	*834*
Profit and loss account	12	1,687,423	*14,987,864*
Total equity		1,688,257	*14,988,698*

The notes on pages 12 to 24 form part of the financial statements.

The financial statements on pages 9 to 24 were approved by the board of directors and authorised for issue on 28 April 2023 and are signed on its behalf by:

Graham Parcell (Apr 28, 2023 11:12 GMT+1)

G J Parcell
Director

FAIRHOLD HOMES (NO.6) LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 OCTOBER 2022

	Share Capital £	Share Premium £	Profit & Loss £	Total £
Balance at 31 October 2020	**591**	**-**	**48,651,129**	**48,651,720**
Transactions with owners in their capacity as owners				
Bonus issue	24,325,564	24,325,565	(48,651,129)	-
Capital Reduction	(24,325,321)	(24,325,565)	48,650,886	-
Dividend paid	-	-	(16,790,009)	(16,790,009)
Total transactions with owners	**243**	**-**	**(16,790,252)**	**(16,790,009)**
Loss and total comprehensive loss for the year	-	-	(16,873,013)	(16,873,013)
Balance at 31 October 2021	**834**	**-**	**14,987,864**	**14,988,698**
Loss and total comprehensive loss for the year	-	-	(13,300,441)	(13,300,441)
Balance at 31 October 2022	**834**	**-**	**1,687,423**	**1,688,257**

The notes on pages 12 to 24 form part of the financial statements.

Company information

Fairhold Homes (No.6) 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.

Basis of accounting

These financial statements have been prepared under the historical cost convention 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 Companies Act 2006, including the provisions of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

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.

The financial statements of the company are consolidated in the financial statements of Fernando PropCo Holdings Limited. The consolidated financial statements of Fernando PropCo Holdings Limited are available from Companies House, Crown Way, Cardiff, CF14 3UZ.

Going concern

In preparing the accounts on the going concern basis the directors have given consideration to the company's results for the year and its net assets position.

Liabilities and Debt Servicing

The company holds unsecured loan notes due to Fernando SSN plc, a member of the group. These notes total £29,185,880 and mature in 2026, bearing interest at SONIA plus a margin as set out in note 10. Net income from the company is used to service this debt and any excess amounts after such servicing is used to repay the loan notes' principal. In the event of the company's net income being insufficient to service the debt fully then the deficit may be deferred at the election of Fernando SSN plc.

As set out in note 8, the company has also made loans to Fernando HoldCo Limited, another group undertaking, to allow it to pay various fees and expenses necessary for the operation of the group.

Going concern *(continued)*

Effect of COVID-19

There were no obvious continuing deleterious effects of the Government's restrictions relating to COVID-19. Transfer fees and ancillary income which are precipitated by lessees selling their properties or seeking variations to their leases increased sharply as a result of the backlog of such activity. Any return to such restrictions may reduce the income in transfer fees and ancillary income in the future.

Leasehold reform

In January 2022 the Government updated its intent regarding further leasehold legislation. Certain aspects of this intended legislation may impact the company's revenue streams and, therefore, valuation. In particular, the intent to reduce the costs to lessees through restricting the level of ground rents in the cost calculation in enfranchisement events, and the abolition of marriage value in such calculations may have negative impact on the company's future income flows.

There continues to be a lack of clarity and detail from Government, meaning that is not possible to make a more detailed impact assessment. The directors have made an assessment of the likely impact of such legislation and have factored this into the valuation of the company's assets. If the Government were to enact the most stringent form of leasehold reform, then, notwithstanding any challenge to the legality of this, the company's future income streams could be further affected which in turn would affect the valuation of the company's assets.

Impact of world events on interest rates

The development of events in the Ukraine coupled with the recovery from the pandemic has caused inflation to increase which, in turn, has increased interest rates. This impacts the company in two ways: in revenue terms, this increases income which is inflated by RPI and in some cases indirectly by CPIH; in cost terms, the company's debt servicing liabilities increase, being based on interest rates. Due to the relative impact of these two elements, the directors note that with a significant shift in rates, the interest under the SD notes may not be affordable. This would lead to the company having to request a deferment from the Group company, Fernando SSN plc, which in turn would result in penalty interest as per the terms of the SD notes.

Impact on cashflows

Historically the company has settled all interest due in full and made repayments of principal. Given the significant and sustained increases in interest rates, and the uncertainty around future rates due to current world events, the directors have modelled a range of cashflows at different forecast interest rates that show the company will be unable to settle in full the interest due on its SD notes during the next year. The company will therefore need to defer some of its interest payable, as described above, and incur penalty interest.

Conclusion

As this deferral is specifically allowed under the terms of the SD notes, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for at least one year from the date of signing the financial statements, and thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

Investment properties

The company's holdings of freehold reversionary interests are classified as Investment Properties and are originally measured at cost and subsequently measured at fair value whilst a reliable measure of fair value is available without undue cost or effort. Changes in fair value are recognised in profit or loss.

The company's freehold reversionary interests, as their name implies, represent interests held in the freehold land on which other third-party developers have built and sold long leasehold properties. As such these assets are more akin to financial investments, as they generate income in the form of annual ground rents and other ancillary income streams.

In normal circumstances there is an expectation that the properties are to be held for the long term. Due to the unusual nature of these investment properties and the lack of a regular market for such significant portfolios of such assets, which are in distinct contrast with the more regular "bricks and mortar" investment properties, the directors have relied upon the extensive market-based valuation work undertaken and subsequent information provided by professional advisers rather than undertake a full actuarial valuation. The directors intend to use such market-based information supplemented, if appropriate, by professional advice for a five-year period and then undertake a full actuarial valuation. Since this year represents the third year of such an approach, the next five-year actuarial valuation is planned for the year-ending 31 October 2024.

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

Further details are given in note 7.

Taxation

The tax expense represents the sum of the current tax expense and deferred tax expense. Current tax assets are recognised when tax paid exceeds the tax payable.

Current tax is based on taxable profit for the year. Taxable profit differs from total comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods. Current tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised, or the liability is settled based on tax rates that have been enacted or substantively enacted by the reporting date. Deferred tax is not discounted.

Deferred tax liabilities are recognised in respect of all timing differences that exist at the reporting date. Timing differences are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in different periods from their recognition in the financial statements. Deferred tax assets are recognised only to the extent that it is probable that they will be recovered by the reversal of deferred tax liabilities or other future taxable profits.

For non-depreciable assets measured using the revaluation model and investment properties measured at fair value (except investment property with a limited useful life held by the company to consume substantially all of its economic benefits), deferred tax is measured using the tax rates and allowances that apply to the sale of the asset or property.

Current and deferred tax is charged or credited in profit or loss, except when it relates to items charged or credited to other comprehensive income or equity, when the tax follows the transaction or event it relates to and is also charged or credited to other comprehensive income, or equity.

Current tax assets and current tax liabilities and deferred tax assets and deferred tax liabilities are offset, if and only if, there is a legally enforceable right to set off the amounts and the entity intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Rent receivable

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

Interest receivable and interest payable

Interest receivable and interest payable are amortised on a straight-line basis over the term of the loan to which they relate.

Exceptional items

Exceptional items are those items which are considered by the directors to be both unusual in nature and non-recurring and, therefore, not appropriate to recognise within operating profit and loss, as to do so would distort the comparison of the company's operating performance when compared to other periods.

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.

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 expenses.

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.

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

The company makes 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 carrying value of the investment properties which is stated at fair value. The directors have valued the investment properties based on market and statistical analyses undertaken by specialist financial advisors engaged by the Group. Inherent in this valuation is a series of assumptions which in the future may not prove to be accurate, the risk of which is heightened due to the potential legislative changes noted below.

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

Leasehold reform

In January 2022, the Government made an announcement as to its likely intentions on leasehold reform. While not detailed, this suggested that, *inter alia*: the value of ground rents used in enfranchisement calculations would be capped at 0.1%; an on-line calculator would be introduced to simplify such calculations; marriage value would be abolished in such calculations; statutory lease extensions would be for a term of 990 years; commonhold would be the preferred structure for new properties; and, the basis on which right to manage (RTM) applications could be made were to be simplified.

The directors note that certain aspects of the Government's announcement have little or no impact on the portfolio, but the lack of clarity and detail, particularly in respect of the ground rent cap and on-line calculator mechanism, and the likely final position the Government takes means that it is not possible to make a full impact assessment.

Any such legislative changes may affect the company's income streams to the extent that the underlying assumptions are no longer valid and the forecasts that underpin the valuation would not be achievable.

Current taxation

In arriving at the tax charge for the year the directors have been required to consider legislation introduced by HMRC in respect of Corporate Interest Restrictions and restrictions on the use of losses from the 1st April 2017. These rules are complex and may have a material impact on the company's tax charge. In arriving at the tax charge, the directors have also utilised tax losses surrendered from other group companies. These surrendered tax losses are also based on assumptions regarding the tax treatment of certain income and expenses within those entities and the actual losses available for surrender could be higher or lower. The directors, having taken appropriate professional advice, believe that their assumptions are reasonable.

Critical accounting estimates and assumptions *(continued)*

Deferred taxation

Deferred tax assets and 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. The Directors engage external professionals to advise on tax matters and the extent to which, in particular, deferred tax assets should be recognised in respect of tax losses.

A net deferred tax liability of £0.8m *(2021: £2.1m)* has been recognised in these financial statements. In arriving at the net deferred tax liability, deferred tax assets of £0.8m *(2021: £2.1m)* in respect of tax losses have been recognised. At the balance sheet date, the company has unrecognised deferred tax assets of £14.1m *(2021: £11.6m)*.

1. Turnover

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

	2022	*2021*
	£	*£*
Rent receivable	972,709	*1,009,328*

2. Interest receivable and similar income

	2022	*2021*
	£	*£*
Interest receivable from other group undertakings	19,727	*12,596*

3. Interest payable and similar expenses

	2022	*2021*
	£	*£*
Interest payable to other group undertakings	636,765	*238,676*

4. Loss before taxation

Loss before taxation is stated after charging:	**2022**	*2021*
	£	*£*
Auditor's remuneration	-	-

The auditor's remuneration of £10,000 *(2021: £9,000)* has been borne by Fernando HoldCo Limited, another group company.

5. Employees and directors

There were no employees during the year *(2021: nil)*. The directors are not remunerated by the company.

6. Taxation

	2022	*2021*
	£	*£*
Current tax		
UK corporation tax @ 19% (*2021: 19%*)	-	*-*
Adjustments in respect of prior periods	-	*(24,835)*
Total current tax charge / (credit)	-	*(24,835)*
Deferred tax:		
Origination and reversal of timing differences	(1,338,182)	*5,226,631*
Adjustments in respect of prior periods	-	*107,726*
Effects of tax rate change on opening balance	-	*(750,358)*
Total deferred tax (credit) / charge	(1,338,182)	*4,583,999*
Total tax (credit) / charge recognised in profit and loss	(1,338,182)	*4,559,164*

Factors affecting the tax (credit) / charge for the year:

The tax assessed for the year is higher than the effective rate of corporation tax in the UK of 19% *(2021: 19%)*. The differences are explained below:

	2022	*2021*
	£	*£*
Loss before tax	(14,638,623)	*(12,313,849)*
Loss multiplied by the effective rate of corporation tax in the UK of 19% *(2021: 19%)*.	(2,781,338)	*(2,339,632)*
Effects of:		
Chargeable losses	-	*(2,457,520)*
Disallowable expenditure	-	*2,457,520*
Group relief claimed	(117,989)	*(103,944)*
Adjustments to tax charge in respect of previous periods	-	*(24,835)*
Adjustments to deferred tax in respect of previous periods	-	*107,726*
Effect of changes in deferred tax rates	(321,165)	*(2,312,138)*
Movement in deferred tax not recognised	1,882,310	*9,231,987*
Total tax (credit) / charge for the year	(1,338,182)	*4,559,164*

6. Taxation *(continued)*

The company has estimated losses of £39.4m *(2021: £39.4m)* available to carry forward against future trading profits. A deferred tax asset has been recognised on these losses included in note 11 to the extent that these are deemed recoverable.

Factors that may affect future tax charges

An increase in the UK corporation tax rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021, and the UK deferred tax asset as of 31 October 2022 has been calculated based on this rate.

7. **Investment properties**

	Freehold reversionary interests
Valuation	**£**
At 1 November 2021	46,095,000
Fair value adjustment	(15,293,500)
At 31 October 2022	30,801,500

The investment properties represent a portfolio of Freehold Reversionary Interests that generate ground rents as the principal income stream.

The historical cost of the properties at 31 October 2022 was £14,413,615 *(2021: £14,413,615).*

In normal circumstances there is an expectation that the properties are to be held for the long term. Due to the unusual nature of these investment properties and the lack of a regular market for such significant portfolios of such assets, which are in distinct contrast with the more regular "bricks and mortar" investment properties, the directors have assessed fair value for these properties from market-based work undertaken, supported by a desk-top analysis of future cashflows. Further analysis and support has been provided by financial advisors. In light of the Government's stated intentions on leasehold reform, the directors have reduced the valuation to £30,801,500 *(2021: £46,095,000).*

8. Debtors: amounts due within one year

	2022 £	*2021 £*
Trade debtors	66,251	*49,288*
Sundry debtors	2,429	*3,230*
Interest-bearing amounts due from group undertakings	727,932	*638,410*
Non-interest-bearing amounts due from group undertakings	501,136	*483,651*
	1,297,748	*1,174,579*

Interest-bearing amounts due from group undertakings relate to amounts due from Fernando HoldCo Limited. These amounts bear interest at SONIA + 2.05%. All amounts due from group undertakings are repayable on demand.

9. Creditors - amounts falling due within one year

	2022 £	*2021 £*
Amounts due to group undertakings	95,100	*95,100*
Accruals and deferred income	368,053	*346,560*
	463,153	*441,660*

10. Creditors - amounts falling due after more than one year

	2022 £	*2021 £*
Unsecured loan notes payable to group undertakings	29,185,880	*29,739,081*

The unsecured loan notes are amounts owed to Fernando SSN plc, another group company, with a maturity date of 2026. These loan notes bear interest as follows:-

Period	**Rate**
15th October 2021 to 14th October 2023	SONIA + 1.15%
15th October 2023 to 14th October 2025	SONIA + 1.45%
Thereafter	SONIA + 1.65%

£553,201 of loan notes were repaid during the year.

11. Provision for liabilities

	2022 £
1 November 2021	2,100,140
Credited to profit and loss in the year	(1,338,182)
31 October 2022	761,958

Deferred tax liabilities / (assets) recognised by the company are as follows:

	2022 £	*2021 £*
Fixed assets measured at fair value	2,177,024	*6,000,400*
Short term timing differences	(653,107)	*(1,800,120)*
Tax losses available	(761,959)	*(2,100,140)*
At end of year	761,958	*2,100,140*

In addition to the deferred tax asset above, the company has additional unrecognised gross tax losses of £36.4m *(2021: £31.0m)*

12. Share capital and reserves

Share capital

No. of shares	**2022 No. of shares**	2021 No. of shares
Ordinary shares of £0.00001 each	83,446,467	*83,446,467*

Allotted, called up and fully paid	**2022 £**	*2021 £*
Ordinary shares of £0.00001 each	834	*834*

12. **Share capital and reserves** *(continued)*

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.

Share Premium
Share premium represents the consideration paid for shares in excess of their nominal value.

Dividends

	2022	*2021*
	£	*£*
Ordinary shares		
Final dividend 2021 *(2020: £16,790,009)* paid*	-	*16,790,009*

*A final dividend in respect of 2020 was declared during the prior year. The dividend was paid "in specie" being off-set in full against corresponding amounts owed by the entity's sole shareholder, Fernando PropCo Holdings Limited.

13. **Contingent liabilities**

The company is part of a wider group, ultimately headed by Fernando Parent Limited. As part of the financing arrangements of the group, the company has given a fixed and floating charge against all of its assets to cover the liabilities due by the group as a whole in respect of secured loan notes issued by the group.

Under a back-to-back arrangement, the company has received, via other group companies, a proportion of the funding raised from the secured loan notes and this amount is set out in note 10.

14. **Immediate holding company**

The company is a wholly owned subsidiary undertaking of Fernando PropCo Holdings Limited, which is registered in England and Wales. The largest group in which the results of the company are consolidated is that headed by Fernando Parent Limited, 8th Floor, 100 Bishopsgate, London, EC2N 4AG. The smallest group in which the results of the company are consolidated is that headed by Fernando PropCo Holdings Limited, 8th Floor, 100 Bishopsgate, London, EC2N 4AG. Copies of the financial statements are available from Companies House, Crown Way, Cardiff, CF4 3UZ.

15. **Ultimate parent company**

The directors consider Fernando Parent Limited, a company incorporated in the United Kingdom, as the ultimate parent company.

16. **Ultimate controlling party**

There is no ultimate controlling party.

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.

18. **Post balance sheet events**

Interest rate rises

As a result of volatile economic conditions, interest rates rose sharply in the period after the 31 October 2022 year end. The company is susceptible to such rises as it holds unsecured loan notes ("SD notes") due to Fernando SSN plc, another group company, with floating interest rates. In the short term, any increases to interest rates will increase the interest that the group pays on its SD notes and therefore reduce the amount of cash available to repay principal.

The sharp and steady increase in interest rates since the year end means that the company will have insufficient funds to satisfy in full the amount of interest due on the SD notes. In this instance, the company is able instead to pay the amounts it can and accrue for all unpaid amounts. In the absence of any amelioration of economic conditions which allows for interest rate cuts, such accruals will increase over time.

In the medium term, increases to inflation will increase the contractual cumulative RPI uplifts to ground rents and other income streams, increasing revenues and cash, which will be a partial offset to increased interest charges, depending on the degree of change.