Registered No. 05608498

HEVAF Grafton GP Limited

Report and Financial Statements

31 December 2010

6/10/11
026

Directors
S Jenner
I Brown
R Blair

Secretary
Abogado Nominees Limited

Auditors
Ernst & Young LLP
1 More London Place
London SE1 2AF

Registered Office
100 New Bridge Street
London
EC4V 6JA

Directors' report

The directors present their report and financial statements for the year ended 31 December 2010

Results and dividends

The result for the year ended 31 December 2010 amounted to loss of £nil (2009 - nil) The directors do not recommend the payment of a dividend (2009 – £nil)

Principal activity and review of the business

The principal activity of the company will continue to be, to act as the general partner to HEVAF Grafton Limited Partnership

Principal risks and uncertainties

In 2008, the company provided a guarantee against a £43 5 million loan facility advanced to HEVAF Grafton Limited Partnership The amount outstanding on the loan facility at 31 December 2010 was £43,477,141 (2009 – £33,688,499)

Directors

The directors who served during the year ended 31 December 2010 and subsequent to that date were as follows

A J Reynolds	(resigned 25 July 2011)
S Jenner	
S H R Musgrave	(resigned 30 June 2010)
I Brown	
PG Holden	(appointed 9 March 2009, resigned 1 July 2009)
R Blair	(appointed 26 July 2011)

Qualifying third party indemnity provisions

An associated undertaking maintains an indemnity to the company's directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006 Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information

Small company exemptions

The directors have prepared the directors' report and financial statements in accordance with the small companies' regime as the company qualifies as small in accordance with the limits set out in the Companies Act 2006

Directors' report

Auditors

A resolution to reappoint Ernst & Young LLP as the company's auditor will be put to the forthcoming Annual General Meeting

On behalf of the Board

Ian J P. Brown

Director- Ian J P Brown

Date 5/8/11

Statement of directors' responsibilities

The directors are responsible for preparing the Annual 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) The financial statements are required by law to 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 and then apply them consistently,
- make judgements and 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 proper accounting records that 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

Independent auditors' report
to the members of HEVAF Grafton GP Limited

We have audited the financial statements of HEVAF Grafton GP Limited for the year ended 31 December 2010 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes 1 to 11 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report

Opinion on 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 2010 and of its result 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

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Independent auditors' report

to the members of HEVAF Grafton GP Limited

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where 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 and the directors' report in accordance with the small companies regime and take advantage of the small companies' exemption in preparing the directors' report

David Wilson (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
Date 05 AUG 2011

Profit and loss account

for the year ended 31 December 2010

	Notes	Year ended 31 December 2010 £	Year ended 31 December 2009 £
Administrative expenses		-	-
Operating result	3	-	-
Interest payable and similar charges		-	-
Result on ordinary activities before taxation		-	-
Taxation on result on ordinary activities	4	-	-
Result for the year	9	-	-

All amounts relate to continuing activities

Statement of total recognised gains and losses

for the year ended 31 December 2010

There are no recognised gains or losses for 2010 or 2009 other than those included in the profit and loss account

Balance sheet
at 31 December 2010

	Notes	2010 £	2009 £
Fixed assets			
Investments	5	-	-
		-	-
Current assets			
Debtors	6	2,101	2,101
		2,101	2,101
Creditors: amounts falling due within one year		-	-
Net current assets		2,101	2,101
Total assets less current liabilities		2,101	2,101
		2,101	2,101
Capital and reserves			
Called up share capital	7	30,002	30,002
Profit and loss account	8	(27,901)	(27,901)
Equity shareholder's funds	8	2,101	2,101

The financial statements were approved by the Board and signed on its behalf by

Ian J.P Brown

Director- Ian J P Brown
Date 5/8/11

Notes to the financial statements

at 31 December 2010

1. Accounting policies

Basis of preparation

The financial statements have been prepared under the historical cost convention in accordance with applicable United Kingdom accounting standards

Going concern

The financial statements have been prepared on a going concern basis, which assumes that the company will be able to meet its liabilities as they fall due, for the foreseeable future

The directors have prepared a cash flow forecast that shows the company will generate no income and will have no ongoing expenses The company also has a net current asset and net asset position Therefore, the directors believe that the company will be able to meet its liabilities as they fall due for the foreseeable future, being a period of at least one year from the date of approval of the financial statements

Statement of cash flows

Under the provisions of Financial Reporting Standard 1 (Revised), the company is exempt from preparing a statement of cash flows because it qualifies as a small company as defined by statute and has taken advantage of the exemption afforded by paragraph 5 of FRS 1

Consolidated financial statements

The financial statements present information about the company itself and not about the group The company has not consolidated the financial information of HEVAF Grafton Limited Partnership, a limited partnership registered in England and Wales, as the company is exempt from the requirement to prepare consolidated financial statements as it is a small company

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exception

- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted
- Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

Notes to the financial statements

at 31 December 2010

1. Accounting policies (continued)

Classification of shares as debt or equity

An equity instrument is a contract that evidences a residual interest in the assets of an entity after deducting all its liabilities Accordingly, a financial instrument is treated as equity if

- there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on terms that may be unfavourable, and
- the instrument is a non-derivative that contains no contractual obligations to deliver a variable number of shares or is a derivative that will be settled only by the Company exchanging a fixed amount of cash or other assets for a fixed number of the Company's own equity instruments

Fixed asset investments

Fixed asset investments are shown at cost less provision for impairment

2. Staff costs and directors' remuneration

There were no staff employed by the company during the year ended 31 December 2010 (2009 – none)

The directors have received £nil remuneration in respect of their services to the company during the year ended 31 December 2010 (2009 – £nil)

3. Operating loss

This is stated after charging

	Year ended 31 December 2010	*Year ended 31 December 2009*
	£	*£*
Auditors' remuneration		
- For the statutory audit of the financial statements	-	-
Total auditors' remuneration	-	-

The auditors' remuneration for the audit of the company amounted to £3,500 (2009 – £3,500) In 2010, this fee has been charged to HEVAF Grafton Limited Partnership and is disclosed in the financial statements of that entity

Notes to the financial statements

at 31 December 2010

4. Tax

(a) Taxation on result on ordinary activities

UK corporation tax

	Year ended 31 December 2010 £	*Year ended 31 December 2009 £*
UK corporation tax	-	-

(b) Factors affecting current tax charge

The tax assessed on the result/ (loss) on ordinary activities for the period is different compared to the standard rate of corporation tax in the UK of 28% (2009 – 28%). The differences are reconciled below

	Year ended 31 December 2010 £	*Year ended 31 December 2009 £*
Result on ordinary activities before tax	-	-
Result on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28% (2009 – 28%)	-	-
Total current tax (note 4(a))	-	-

(c) Factors affecting future tax charges

There are tax losses of £28,560 (2009 - £28,560) carried forward as at the end of the year There is currently no persuasive and reliable evidence at this time to indicate there will be suitable future accounting profits from which to set against these losses, consequently no deferred tax asset has been recognised in respect of these losses

In the budget of 22 June 2010, the Chancellor of the Exchequer proposed a decrease in the rate of UK corporation tax from 28% to 24% by 1% each year from April 2011, which would be enacted annually In the budget of 23 March 2011, this proposal was amended such that the rate will reduce to 26% from April 2011, with a subsequent 1% reduction in each of the next three years taking the rate to 23%, from April 2014 The rate changes will impact the amount of future tax payments to be made by the company

Notes to the financial statements
at 31 December 2010

5. Investments

	£
Cost	
At 1 January 2010	-
Impairment	-
At 31 December 2010	-

The investment relates to a 0 01% holding in the HEVAF Grafton Limited Partnership, a partnership registered in England In accordance with the Partnership Deed dated 16 February 2006, HEVAF Grafton GP Limited, as General Partner, is entitled to 0 01% of any profits or losses that HEVAF Grafton Limited Partnership makes

6. Debtors

	2010 £	*2009* £
Amounts owed by immediate parent undertaking	2	2
Amounts owed by HEVAF Grafton Limited Partnership	2,099	2,099
	2,101	2,101

7. Authorised and issued share capital

Authorised	*2010* £	*2009* £
Ordinary shares of £1 each	30,100	30,100

Allotted, called up and fully paid	*2010* £	*2009* £
Ordinary shares of £1 each	30,002	30,002

Notes to the financial statements

at 31 December 2010

8. Reconciliation of movements in shareholder's funds and movements in reserves

	Share capital £	*Profit and loss account* £	*Total share-holders' funds* £
At 31 December 2008	30,002	(27,901)	2,101
Result for the year	-	-	-
At 31 December 2009	30,002	(27,901)	2,101
Result for the year	-	-	-
At 31 December 2010	30,002	(27,901)	2,101

9. Contingent liabilities

In 2008, the company provided a guarantee against a £43 5 million loan facility advanced to HEVAF Grafton Limited Partnership The amount outstanding on the loan facility at 31 December 2010 was £43,477,141 (2009 – £33,688,499)

10. Related Party Transactions

All transactions with related parties, or balances with related parties as at the year end date, have been disclosed within note 6

11. Parent undertaking and controlling party

The company's immediate parent undertaking is HEVAF Master C Sarl, a company incorporated in the Duchy of Luxembourg

The company's ultimate parent undertaking and controlling party is Hines European Value Added Fund, a fonds commun de placement ('FCP') incorporated in the Duchy of Luxembourg The largest and smallest group in which the results of the group are consolidated is that headed by Hines European Value Added Fund, the financial statements of which are not available to the public

Registered No: LP010987

HEVAF Grafton Limited Partnership

Report and Financial Statements

31 December 2010

THESE ACCOUNTS FORM PART OF THE GROUP ACCOUNTS OF COMPANY No. 5608498

FRIDAY

COMPANIES HOUSE

Partners
HEVAF Grafton Office Sarl
HEVAF Grafton GP Limited

General Partner
[redacted]

Auditors
Ernst & Young LLP
1 More London Place
London SE1 2AF

Registered Office
Queensberry House
3 Old Burlington Street
London
W1S 3AE

General partner's report

The general partner presents its report and financial statements for the year ended 31 December 2010

Results

The profit for the year after taxation, amounted to £962,623 (2009 – profit of £1,630,000)

Principal activity and review of the business

HEVAF Grafton Limited Partnership ('the Partnership') is registered pursuant to the provisions of The Limited Partnerships Act 1907

The principal activities of the business comprise property investment and the management of commercial property The Partnership holds the leasehold title to the property located at 1 Grafton Street in London Construction work on this property was completed in 2010 At 31 December 2010, the asset was classified in the accounts as an investment property (at prior year end it was classified as an asset in the course of construction)

As at July 2011, a number of office and retail lettings in connection with the property have been completed and various further expressions of interest have been received The Partnership has continued to incur costs in relation to the letting of the property and in relation to void costs on the building

Future developments

The Partnership intends to continue with its current activities for the foreseeable future The Partnership continues to seek lettings for the remaining space at the property

The General Partner has considered the valuation of the investment property at 31 December 2010 contained within these accounts The General Partner notes that since the end of 2010, a number of lettings have been achieved and the market for space in the vicinity of Grafton Street in Mayfair in the West End remains strong with limited competing new buildings

Principal risks and uncertainties

- Refinancing risk

The bank loan facility in connection with the property at 1 Grafton Street is due for repayment in January 2012 The existing debt provider indicated in a letter to the General Partner in July 2011 its full expectation to be able to offer an extension to this facility of at least six months on terms to be agreed and subject to credit committee approval and due diligence (including a valuation) See note 1 to the financial statements on 'going concern'

- Valuation and letting risk

The ability to find tenants to let the remaining space at 1 Grafton Street and the terms of such lettings may have a material impact on valuation

Increases or decreases in the valuation of the investment property can materially impact the value of Partners' funds

- Reliance on ultimate parent for continued funding

The Partnership's loan facility is fully drawn Existing cash in the Partnership is expected to be utilised by or around December 2011, at which point the Partnership will still have funding needs prior to the asset becoming fully income producing (with rent free periods completed) The ultimate parent undertaking has indicated in a letter to the General Partner in July 2011 its intention to provide further capital to the partnership of up to £1million to meet anticipated interest and other costs for the 12 months to July 2012 to the extent such capital is required

Capital contributions

During the year, the Partnership did not receive any capital contributions (2009 - £nil)

General partner's report

Disclosure of information to the auditors

So far as the General Partner at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware Having made enquiries of the company's auditor, the general partner has taken all the steps that it is obliged to take as the general partner in order to make itself aware of any relevant audit information and to establish that the auditor is aware of that information

Auditors

The partners have agreed that Ernst & Young LLP will remain the auditors of the Partnership until further notice

On behalf of the Board of the General Partner, HEVAF Grafton GP Limited

Ian J. P. Brown

Director- Ian J P Brown

HEVAF Grafton GP Limited

Date 5/8/11

Statement of general partner's responsibilities

The General Partner is responsible for preparing the financial statements in accordance with applicable law and regulations

The Partnerships (Accounts) Regulations 2008 require the General Partner to prepare financial statements for each financial year Under that law the General Partner has elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law)

The financial statements are required by law to give a true and fair view of the state of affairs of the Partnership as at the end of the financial period and of the profit or loss for that period In preparing those financial statements, the General Partner is required to

- select suitable accounting policies and then apply them consistently,
- make judgements and 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 Partnership will continue in business

The General Partner is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time, the financial position of the Partnership and to enable them to ensure that the financial statements comply with the Partnerships (Accounts) Regulations 2008 It is also responsible for the Partnership's system of internal financial control, for safeguarding the assets of the Partnership and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Independent auditors' report

to the partners of HEVAF Grafton Limited Partnership

We have audited the financial statements of HEVAF Grafton Limited Partnership for the year ended 31 December 2010 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet, Statement of Cash Flows and the related notes 1 to 19 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to partnership, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 as applied to qualifying partnerships by The Partnerships (Accounts) Regulations 2008 Our audit work has been undertaken so that we might state to the partnership 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 partnership, as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of the general partner and auditors

As explained more fully in the Statement of General Partner's Responsibilities set out on page 4, the General partner is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the qualifying partnership's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the members, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the General Partner's report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the qualifying partnership's affairs as at 31 December 2010 and of its profit 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 Companies Act 2006 as applied to qualifying partnerships by the Partnerships (Accounts) Regulations 2008

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 as applied to qualifying partnerships 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 members' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Independent auditors' report

to the partners of HEVAF Grafton Limited Partnership

Emphasis of matter – going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the Partnership's ability to continue as a going concern This disclosure indicates the existence of a material uncertainty which may cast significant doubt on the Partnership's ability to continue as a going concern The financial statements do not include the adjustments that would result if the Partnership was unable to continue as a going concern

Ernst & Young LLP

David Wilson (Senior Statutory Auditor)
London, United Kingdom
for and on behalf of Ernst & Young LLP, Statutory Auditor
Date

05 AUG 2011

Profit and loss account

for the year ended 31 December 2010

	Notes	Year ended 31 December 2010 £	Year ended 31 December 2009 £
Turnover	3	51,932	-
Operating expenses		–	(3,751)
Gross profit/ (loss)		51,932	(3,751)
Administrative expenses		(552,341)	(413,261)
Operating loss	4	(500,409)	(417,012)
Interest receivable and similar income	7	2,129,450	1,909
Interest payable and similar charges	8	(1,684,781)	(2,186,351)
Reversal of impairment of asset in the course of construction	5	1,018,363	4,231,454
Profit on ordinary activities before taxation		962,623	1,630,000
Taxation		–	–
Profit for the year	15	962,623	1,630,000

All the amounts relate to continuing activities

Statement of total recognised gains and losses

for the year ended 31 December 2010

	Notes	Year ended 31 December 2010 £	Year ended 31 December 2009 £
Profit for the year		962,623	1,630,000
Gain on revaluation of investment properties	9	18,840,128	–
Total recognised gains and losses relating to the year		19,802,751	1,630,000

Balance sheet

at 31 December 2010

	Notes	2010 £	2009 £
Fixed assets			
Asset in the course of construction	9	–	34,000,000
Investment property	9	61,400,000	–
		61,400,000	34,000,000
Current assets			
Debtors	10	270,447	155,821
Cash at bank and in hand		2,364,377	848,766
		2,634,824	1004587
Creditors: amounts falling due within one year	11	(242,330)	(891,022)
Net current assets		2,392,494	113,565
Total assets less current liabilities		63,792,494	34,113,565
Creditors amounts falling due after more than one year	12	(43,436,948)	(33,560,770)
		20,355,546	552,795
Financed by			
Partners' capital accounts	14	8,325,393	8,325,393
Partners' current accounts	14	(6,809,975)	(7,772,598)
Partners' revaluation reserve	14	18,840,128	–
Partners' capital	15	20,355,546	552,795

The financial statements were approved by the General Partner, HEVAF Grafton GP Limited, on and signed on its behalf by

Ian J P Brown

Director- Ian J P Brown

HEVAF Grafton GP Limited

Date 5/8/11

Statement of cash flows

for the year ended 31 December 2010

	Notes	*Year ended 31 December 2010* £	*Year ended 31 December 2009* £
Net cash outflow from operating activities	17(a)	(1,267,728)	(61,388)
Returns on investments and servicing of finance			
Interest received		5,234	1,909
Interest paid		(1,593,244)	(2,066,503)
Receipts from closure of forward contract		2,124,216	-
Cash inflow/ (outflow) from returns on investments and servicing of finance		536,206	(2,064,594)
Capital expenditure and financial investment			
Purchase and expenditure on investment property		(7,541,509)	(7,686,544)
Financing			
Bank loan received		9,788,642	9,934,535
Cash inflow from financing		9,788,642	9,934,535
Increase in cash and cash equivalents		1,515,611	122,009

Reconciliation of net cash flow to movement in net debt

	Notes	*2010* £	*2009* £
Increase in cash		1,515,611	122,009
Cash inflow from increase in loans		(9,788,642)	(9,934,535)
Cash outflow from repayment of loans		-	-
Change in net debt arising from cash flows		(8,273,031)	(9,812,526)
Amortisation of bank loan fees		(87,536)	(119,848)
Movement in net debt		(8,360,567)	(9,932,374)
Net debt at 1 January	17(b)	(32,712,004)	(22,779,630)
Net debt at 31 December	17(b)	(41,072,571)	(32,712,004)

Notes to the financial statements

at 31 December 2010

1. Accounting policies

Basis of preparation

The financial statements have been prepared under the historical cost convention in accordance with applicable accounting standards in the United Kingdom

Going concern

The financial statements have been prepared on a going concern basis, which assumes that the Partnership will be able to meet its liabilities as they fall due, for the foreseeable future

The General Partner has prepared cash flow forecasts which indicate the Partnership can continue as a going concern These cash flow forecasts indicate that there will be a shortfall to meet interest payments and other costs In respect of the shortfall the General Partner has received a letter from its ultimate parent confirming its intention to make available funds to the Partnership, if required, to pay interest and other costs excluding the bank debt of up to a further £1 million over the next 12 months The General Partner believes that this support will be sufficient to enable the Partnership to meet interest payments and other costs

Furthermore, in preparing those forecasts the General Partner has taken account of a material risk and uncertainty in respect of the ability of the Partnership to repay the bank loan or refinance it when it becomes due for repayment The Partnership has a bank loan with Santander of £43 5 million that is secured on the asset The bank loan is due for repayment in January 2012 The asset was valued at £61 4 million at 31 December 2010 In the event that the Partnership was unable to repay the bank loan in full on sale of the asset or refinance or extend the loan at its term, the Partnership may no longer be able to meet its liabilities as they fall due This represents a material uncertainty that may cast significant doubt on the Partnership's ability to continue as a going concern

In the General Partner's view, the commercial property market for prime product (both from a letting and investment perspective) such as Grafton Street in Mayfair in the West End remains strong and a number of lettings of space in the property have taken place since 31 December 2010 Further the General Partner has received from the bank a letter stating the bank's expectation that it will be able to offer an extension to the current facility (at its existing facility level) of at least six months, if requested, on terms to be agreed Such an extension would ultimately require credit approval and appropriate due diligence to include, but not limited to, an updated valuation report

The General Partner is therefore confident that the Partnership can repay the bank loan in full on sale of the asset or refinance or extend the loan at its term The General Partner therefore considers that it is appropriate to prepare the Partnership's accounts on a going concern basis

The financial statements do not include the adjustments that would result if the Partnership was unable to continue as a going concern

Revenue recognition

Rental income is credited to turnover on an accruals basis

Fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses Direct and indirect costs incurred during development and construction are capitalised directly to fixed assets The asset in the course of construction includes acquisition costs, legal fees and environmental fees Finance costs are not capitalised and are expensed on an accruals basis

The asset in the course of construction is not depreciated

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable

Notes to the financial statements

at 31 December 2010

1. Accounting polıcies (contınued)

Investment propertıes

Certaın of the Partnershıp's propertıes are held for long term ınvestment Investment propertıes are accounted for under SSAP 19, as follows

- ınvestment properties are revalued annually The surplus or deficıt on revaluatıon ıs transferred to the revaluatıon reserve unless a deficıt below orıgınal cost, or ıts reversal, on an ındıvıdual ınvestment property ıs expected to be permanent, ın which case ıt ıs recognısed ın the profit and loss account for the year, and
- no depreciatıon ıs provıded ın respect of leasehold ınvestment propertıes where the lease has over 20 years to run

Although the Companıes Act would normally requıre the systematıc annual depreciatıon of leased fixed assets the General Partner belıeves that the polıcy of not provıdıng depreciatıon ıs necessary ın order for the financıal statements to provıde a true and faır vıew, sınce the current value of ınvestment propertıes, and changes to that current value, are of prıme ımportance rather than a calculatıon of systematıc annual depreciatıon Depreciatıon ıs only one of the many factors reflected ın the annual valuatıon, and the amount whıch mıght otherwıse have been ıncluded cannot be separately ıdentıfied or quantıfied

Taxatıon

No taxatıon ıs provıded as the tax lıabılıtıes on the Partnershıp's profit are a lıabılıty of the partners and not of the Partnershıp

Carryıng amount of debt and allocatıon of loan ıssue costs

Debt ınstruments, such as bank loans, are stated at theır net proceeds (ıe, after deductıon of loan ıssue costs) on ıssue Issue costs are amortısed to the profit and loss account over the lıfe of the ınstrument and are ıncluded ın ınterest payable

Derıvatıve instruments

The Partnershıp has used ınterest rate swaps to adjust ınterest rate exposures, although there are no swaps ın place as at 31 December 2010 Interest rate swaps are accounted for on a cost basıs and assessed for ımpaırment The faır value of the ınterest rate swaps ıs not recorded ın the balance sheet but ıncluded as a dısclosure ın the notes to the financıal statements The faır values of the derıvatıves held at the balance sheet date are determıned by reference to theır market value If they are termınated early, the gaın/ loss ıs taken to the profit and loss account

Foreign currencıes

Transactıons ın foreıgn currencıes are recorded at the rate rulıng at the date of the transactıon, or where appropriate, at the rate of exchange ın a related forward exchange contract Monetary assets and lıabılıtıes denomınated ın foreıgn currencıes are retranslated at the rate of exchange rulıng at the balance sheet date All dıfferences are taken to the profit and loss account wıth the exceptıon of dıfferences on foreıgn currency borrowıngs, to the extent that they are used to finance or provıde a hedge agaınst foreıgn equıty ınvestments, whıch are taken dırectly to reserves together wıth the exchange dıfference on the carryıng amount of the related ınvestments Tax charges and credıts attrıbutable to exchange dıfferences on those borrowıngs are also dealt wıth ın reserves

2. Principal activities

The prıncıpal actıvıtıes comprıse property ınvestment and management of commercıal property development

The Partnershıp holds the leasehold tıtle to the property located at 1 Grafton Street, London

HEVAF Grafton GP Lımıted, actıng as General Partner, had a legal ınterest of 0 01% ın the Partnershıp HEVAF Office Grafton Sarl, actıng as lımıted partner, had an ınterest of 99 99% ın the Partnershıp

Notes to the financial statements

at 31 December 2010

3. Turnover

	Year ended 31 December 2010	*Year ended 31 December 2009*
	£	*£*
Rental income	51,932	–

Turnover represents amounts receivable in respect of property rentals, provided in the normal course of business, and is stated net of value added tax, it relates to one geographical market, the United Kingdom

4. Operating loss

This is stated after charging

	Year ended 31 December 2010	*Year ended 31 December 2009*
	£	*£*
Auditors' remuneration		
- For the statutory audit of the financial statements	20,150	21,150
Total auditors' remuneration	20,150	21,150

The Partnership also incurred £3,500 (2009 - £3,500) in audit fees in respect of HEVAF Grafton GP Limited, its general partner

Notes to the financial statements

at 31 December 2010

5. Exceptional Items

Recognised below operating profit

	2010	*2009*
	£	*£*
Reversal of impairment of asset in the course of construction	1,018,363	4,231,454

The tax effect in the profit and loss account relating to exceptional items recognised below operating profit is

	2010	*2009*
	£	*£*
Tax charge on loss on impairment of asset in the course of construction	–	–

6. Staff costs

The Partnership had no employees during the year ended (2009 – none)

7. Interest receivable and similar income

	Year ended 31 December 2010	*Year ended 31 December 2009*
	£	*£*
Bank interest	5,234	1,909
Realised gain on FX forward contract	2,124,216	–
	2,129,450	1,909

8. Interest payable and similar charges

	Year ended 31 December 2010	*Year ended 31 December 2009*
	£	*£*
Interest payable on bank loans and overdraft	1,597,245	2,066,503
Amortisation of loan issue costs	87,536	119,848
	1,684,781	2,186,351

Notes to the financial statements

at 31 December 2010

9. Tangible fixed assets

	Asset in the course of construction £	*Investment Property* £	*Total* £
At cost or valuation			
At 31 December 2009	35,018,363	–	35,018,363
Additions	7,541,509	–	7,541,509
Transfer on completion of property	(42,559,872)	42,559,872	–
Gain on revaluation	–	18,840,128	18,840,128
At 31 December 2010	–	61,400,000	61,400,000
Impairment			
At 31 December 2009	*1,018,363*	–	1,018,363
Reversal of impairment during the year	(1,018,363)	–	(1,018,363)
At 31 December 2010	–	–	–
Net Book Value at 31 December 2010	–	61,400,000	61,400,000
Net Book Value at 31 December 2009	34,000,000	–	34,000,000

The historical cost of the investment property is £42,559,872 (2009 - £nil)

In accordance with SSAP 19 'Accounting for Investment Properties' the investment property is carried at valuation The fair value has been derived by a suitably qualified director of the General Partner, in accordance with the appraisal and valuation standards of the Royal Institution of Chartered Surveyors (RICS)

10. Debtors

	2010 £	*2009* £
Other debtors	139,670	125,932
Prepayments and accrued income	130,777	29,889
	270,447	155,821

Included in other debtors there is an amount of £132,448 (£nil 2009) that represents tenant paid deposits held on restricted cash accounts controlled by the loan provider

Notes to the financial statements
at 31 December 2010

11. Creditors: amounts falling due within one year

	2010	*2009*
	£	*£*
Trade creditors	22,095	47,446
Amounts owed to group companies	2,099	25,463
Other creditors	139,385	2,937
Accruals and deferred income	78,751	815,176
	242,330	891,022

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

	2010	*2009*
	£	*£*
Bank loans (see note 13)	43,436,948	33,560,770

13. Bank loans

Loans repayable, included within creditors, are analysed as follows

	2010	*2009*
	£	*£*
Bank loan wholly repayable within 1 - 2 years	43,477,141	33,688,499
Less issue costs	(40,193)	(127,729)
	43,436,948	33,560,770

The bank loan is secured by a charge over the asset in the course of construction, now the investment property

On 1 August 2008, the Partnership entered into an Amendment and Restatement Agreement in respect of the above bank loan facility This Agreement amended certain loan covenants and reduced the immediate loan sum outstanding by £3,300,000 The total loan facility is now £43,500,000 and that amount was fully drawn by January 2011

Up to January 2011 the loan attracted interest at LIBOR plus 1 2% After the extension granted in January 2011, the loan attracts interest at LIBOR plus 2 25% and will now be repayable in January 2012

Notes to the financial statements

at 31 December 2010

The Partnership held an interest rate swap over part of the above bank loan facility to manage interest rate risk volatility This swap terminated in June 2010, and no other derivatives have been entered into The fair values of the derivatives held at the balance sheet date, determined by reference to their market values, are as follows

	2010	*2009*
	£	*£*
Interest rate swaps	-	(854,222)

The fair value of the interest rate swap is not included in the Partnership's financial statements as the Partnership is not required to apply FRS 26

14. Partners' accounts

Capital accounts

	HEVAF Grafton Office Sarl	*HEVAF Grafton GP Limited*	*Total*
	£	*£*	*£*
At 31 December 2009	8,325,380	13	8,325,393
At 31 December 2010	8,325,380	13	8,325,393

Current accounts

	HEVAF Grafton Office Sarl	*HEVAF Grafton GP Limited*	*Total*
	£	*£*	*£*
At 31 December 2009	(7,771,821)	(777)	(7,772,598)
Profit for the year	962,527	96	962,623
At 31 December 2010	(6,809,294)	(681)	(6,809,975)

Revaluation reserve

	HEVAF Grafton Office Sarl	*HEVAF Grafton GP Limited*	*Total*
	£	*£*	*£*
At 31 December 2009	–	–	–
Gain on revaluation	18,838,245	1,883	18,840,128
At 31 December 2010	18,838,245	1,883	18,840,128

Notes to the financial statements

at 31 December 2010

15. Reconciliation of partners' capital and movement on reserves

	Partners' capital accounts £	*Partners' current accounts* £	*Revaluation reserve* £	*Partners' capital* £
At 31 December 2008	8,325,393	(9,402,598)	–	(1,077,205)
Profit for the year	–	1,630,000	–	1,630,000
At 31 December 2009	8,325,393	(7,772,598)	–	552,795
Profit for the year	–	962,623	–	962,623
Gain on revaluation	–	–	18,840,128	18,840,128
At 31 December 2010	8,325,393	(6,809,975)	18,840,128	20,355,546

16. Related parties

During the period, the Partnership did not purchase any further services in the normal course of business from Hines UK Limited, a related party, (2009 – £80,000) At 31 December 2010, the amount owed to Hines UK Limited was £nil (2009 –£23,364)

The Partnership owes £2,099 (2009 – £2,099) to HEVAF Grafton GP Limited in respect of its operating costs

In accordance with the Partnership Deed dated 16 February 2006, HEVAF Grafton GP Limited, as General Partner, is entitled to 0 01% of any profits or losses that the Limited Partnership makes

17 Notes to the statement of cash flows

(a) Reconciliation of operating loss to net cash outflow from operating activities

	Year ended 31 December 2010 £	*Year ended 31 December 2009* £
Operating loss	(500,409)	(417,012)
(Increase)/ decrease in debtors	(114,627)	160,906
(Decrease)/ increase in creditors	(652,692)	194 718
Net cash outflow from operations	(1 267,728)	(61,388)

Notes to the financial statements

at 31 December 2010

17. Notes to the statement of cash flows (continued)

(b) Analysis of changes in net debt

	At 31 December 2009	*Cash flows*	*Other*	*At 31 December 2010*
	£	£	£	£
Cash in hand and at bank	848,766	1,515,611	-	2,364,377
Debt due after more than one year	(33,560,770)	(9,788,642)	(87,536)	(43,436,948)
	(32,712,004)	(8,273,031)	(87,536)	(41,072,571)

18. Derivatives

The Partnership purchased a forward foreign exchange contract to manage foreign exchange exposures on capital contributions The contract, which had a fair value of £2,366,111 in 2009, was closed in March 2010, generating a gain of £2,124,216

19. Ultimate parent undertaking and controlling party

The Partnership's ultimate parent undertaking and controlling party is Hines European Value Added Fund, a fonds commun de placement ('FCP') established in the Duchy of Luxembourg which indirectly owns the Partnership's limited partners, HEVAF Grafton GP Limited (incorporated in the UK) and HEVAF Grafton Office Sarl (incorporated in the Duchy of Luxembourg) The largest and smallest group in which the results of the group are consolidated is that headed by Hines European Value Added Fund, the financial statements of which are not available to the public