Registered No. 05608498

HEVAF Grafton GP Limited

Report and Financial Statements

31 December 2009

Directors
S Jenner
S H R Musgrave
A J Reynolds
I Brown

Secretary
Abogado Nomınees Lımıted

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

Registered Office
100 New Brıdge Street
London
EC4V 6JA

Directors' report

The directors present their report and financial statements for the year ended 31 December 2009

Results and dividends

The result for the year ended 31 December 2009 amounted to £nil (2008 – loss of £4,448) The directors do not recommend the payment of a dividend (2008 – £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

The company provided a guarantee against a £43 5 million loan facility advanced to HEVAF Grafton Limited Partnership The directors are satisfied that HEVAF Grafton Limited Partnership is able to fulfil its obligations under the loan agreements without recourse to the guarantee

Directors

The directors who served during the year ended 31 December 2009 and subsequent to that date were as follows

A J Reynolds	
S Jenner	
S H R Musgrave	
I Brown	
PG Holden	(appointed 9 March 2009, resigned 1 July 2009)

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

Director - Ian J P Brown

29 JUN 2010

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 2009 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes 1 to 13 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 Directors' Responsibilities Statement 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 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 (APB'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

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 2009 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

David Wilson (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

29 JUN 2010

Profit and loss account

for the year ended 31 December 2009

	Notes	Year ended 31 December 2009 £	Year ended 31 December 2008 £
Administrative expenses		-	(4,383)
Operating result/ (loss)	3	-	(4,383)
Interest payable and similar charges	4	-	(65)
Result/ (loss) on ordinary activities before taxation		-	(4,448)
Taxation on result/ (loss) on ordinary activities	5	-	-
Result/ (loss) for the year	10	-	(4,448)

All amounts relate to continuing activities

Statement of total recognised gains and losses

for the year ended 31 December 2009

There are no recognised gains or losses for 2009 or 2008 other than those included in the profit and loss account

Balance sheet

at 31 December 2009

	Notes	2009 £	2008 £
Fixed assets			
Investments	6	-	-
		-	-
Current assets			
Debtors	7	2,101	5,101
		2,101	5,101
Creditors: amounts falling due within one year	8	-	(3,000)
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	9	30,002	30,002
Profit and loss account	10	(27,901)	(27,901)
Equity shareholder's funds	10	2,101	2,101

The financial statements were approved by the Board on 29 JUN 2010
and signed on its behalf by

Director - Ian J P Brown

Notes to the financial statements

at 31 December 2009

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 assessing the ongoing costs and income of the company The cash flow forecast shows that the company will generate no income but its ongoing expenses are being met by HEVAF Grafton Limited Partnership 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 2009

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 2009 (2008 – none)

The directors have received no remuneration in respect of their services to the company during the year ended 31 December 2009 (2008 – £nil)

3. Operating loss

This is stated after charging

	Year ended 31 December 2009	*Year ended 31 December 2008*
	£	*£*
Auditors' remuneration		
- For the statutory audit of the financial statements	-	3,050
Total auditors' remuneration	-	3,050

The auditors' remuneration for the audit of the company amounted to £3,500 (2008 – £3,050) In 2009, this fee has been charged to HEVAF Grafton Limited Partnership and is disclosed in the financial statements of that entity

4. Interest payable and similar charges

	Year ended 31 December 2009	*Year ended 31 December 2008*
	£	*£*
Bank interest	-	65

Notes to the financial statements

at 31 December 2009

5. Tax

(a) Taxatıon on result/ (loss) on ordınary actıvıtıes

UK corporatıon tax

	Year ended 31 December 2009	*Year ended 31 December 2008*
	£	*£*
UK corporatıon tax	-	-

(b) Factors affectıng current tax charge

The tax assessed on the result/ (loss) on ordınary actıvıtıes for the perıod ıs dıfferent compared to the standard rate of corporatıon tax ın the UK of 28% (2008 – 28 5%) The dıfferences are reconcıled below

	Year ended 31 December 2009	*Year ended 31 December 2008*
	£	*£*
Result/ (loss) on ordınary actıvıtıes before tax	-	(4,448)
Loss on ordınary actıvıtıes multıplıed by the standard rate of corporatıon tax ın the UK of 28% (2008 – 28 5%)	-	(1,268)
Effects of		
Tax losses not utılısed	-	1,268
Total current tax (note 5(a))	-	-

(c) Factors affectıng future tax charges

There are tax losses of £28,302 (2008 - £28,302) carrıed forward as at the end of the year There ıs currently no persuasıve and relıable evıdence at thıs tıme to ındıcate there wıll be suıtable future accountıng profits from whıch to set agaınst these losses, consequently no deferred tax asset has been recognısed ın respect of these losses

Notes to the financial statements

at 31 December 2009

6. Investments

	£
Cost	
At 1 January 2009	-
Impairment	-
At 31 December 2009	-

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

7. Debtors

	2009 £	*2008* £
Amounts owed by immediate parent undertaking	2	5,101
Amounts owed by HEVAF Grafton Limited Partnership	2,099	-
	2,101	5,101

8. Creditors: amounts falling due within one year

	2009 £	*2008* £
Accruals and deferred income	-	3,000
	-	3,000

9. Authorised and issued share capital

Authorised	*2009* £	*2008* £
Ordinary shares of £1 each	30,100	30,100

Allotted, called up and fully paid	*2009* £	*2008* £
Ordinary shares of £1 each	30,002	30,002

Notes to the financial statements

at 31 December 2009

10. Reconciliation of movements in shareholder's funds/ (deficit) and movements in reserves

	Share capital	*Profit and loss account*	*Total share-holders' funds/ (deficit)*
	£	£	£
At 31 December 2007	30,002	(23,453)	6,549
Loss for the year	-	(4,448)	(4,448)
At 31 December 2008	30,002	(27,901)	2,101
Result for the year	-	-	-
At 31 December 2009	30,002	(27,901)	2,101

11. Contingent liabilities

In 2008, the company provided a guarantee against a £43 5 million loan facility advanced to HEVAF Grafton Limited Partnership The directors are satisfied that HEVAF Grafton Limited Partnership is able to fulfil its obligations under the loan agreements without recourse to the guarantee The amount outstanding on the loan facility at 31 December 2009 was £33,688,499 (2008 – £23,753,963)

12. Related Party Transactions

All transactions with related parties, or balances with related parties as at the year end date, have been disclosed within Note 7

13. 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 2009

Partners
HEVAF Grafton Office Sarl
HEVAF Grafton GP Limited

General Partner
HEVAF Grafton GP Limited

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 2009

Results

The profit for the year after taxation, amounted to £1,630,000 (2008 – loss of £7,496,922)

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 comprise property investment and management of commercial property The Partnership holds the leasehold title to the property located at 1 Grafton Street in London, which is classified as an asset in the course of construction During the year, the Partnership has continued to incur costs in relation to the redevelopment of the property

Future developments

The Partnership intends to continue with its current activities for the foreseeable future The Partnership expects construction work on 1 Grafton Street to be completed in the summer of 2010 and expects to seek tenants for 1 Grafton Street during 2010

The General Partner has considered the valuation of the asset in the course of construction at 31 December 2009 contained within these accounts The General Partner notes that since the end of 2009, values for well let space in the vicinity of Grafton Street in Mayfair in the West End have increased strongly Further, the General Partner considers that the completed building will provide prime office space and should attract premium letting opportunities, particularly given the very limited supply of competing new space

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 2011 The existing debt provider indicated in a letter to the General Partner in May 2010 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 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 development can materially impact the value of Partners' funds

- Use of derivatives

The Partnership has used, and may in the future use, interest rate swaps to manage interest rate exposures in order to guarantee fixed interest payments where payments are variable and hence exposed to interest rate movements The existing swap expires in June 2010 and the General Partner has no immediate plans to put in place a new swap thereafter

Capital contributions

During the year, the Partnership did not receive any capital contributions (2008 - £7,023,056)

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

Director - Ian J P Brown

2 9 JUN 2010

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 (the "financial statements") of HEVAF Grafton Limited Partnership for the year ended 31 December 2009 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 These financial statements have been prepared under the accounting policies set out therein

This report is made solely to partnership, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 as applicable to qualifying partnerships 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

The general partner's responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and for being satisfied that the financial statements give a true and fair view, are set out in the statement of general partner's responsibilities

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view, have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and are prepared in accordance with the Companies Act 2006 as applied to qualifying partnerships by the Partnerships (Accounts) Regulations 2008

In addition we report to you if, in our opinion, the partnership has not kept adequate accounting records, if we have not received all the information and explanations we require for our audit, or if certain disclosures of directors' remuneration or partners' transactions with the partnership specified by law are not made

We read the general partner's report and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgments made by the manager in the preparation of the financial statements, and of whether the accounting policies are appropriate to the partnership's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

Independent auditors' report

to the partners of HEVAF Grafton Limited Partnership

Opinion

In our opinion

- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice,
- the financial statements have been prepared in accordance with the Companies Act 2006 as applied to qualifying partnerships by the Partnerships (Accounts) Regulations 2008, and
- the financial statements give a true and fair view of the state of the partnership's affairs as at 31 December 2009 and of the partnership's profit for the year then ended

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

David Wilson (Senior Statutory Auditor)

London, United Kingdom

for and on behalf of Ernst & Young LLP, Statutory Auditor

Date 29 JUN 2010

Profit and loss account

for the year ended 31 December 2009

	Notes	Year ended 31 December 2009 £	Year ended 31 December 2008 £
Turnover	3	–	12,983
Operating expenses		(3,751)	(143,157)
Gross loss		(3,751)	(130,174)
Administrative expenses		(413,261)	(250,913)
Operating loss	4	(417,012)	(381,087)
Interest receivable and similar income	7	1,909	26,258
Interest payable and similar charges	8	(2,186,351)	(1,892,276)
Reversal of impairment/ loss on impairment of asset in the course of construction	5	4,231,454	(5,249,817)
Profit/ (loss) on ordinary activities before taxation		1,630,000	(7,496,922)
Taxation	1	–	–
Profit/ (loss) for the year	15	1,630,000	(7,496,922)

All the amounts relate to continuing activities

Statement of total recognised gains and losses

for the year ended 31 December 2009

There are no recognised gains or losses for 2009 or 2008 other than those included in the profit and loss account

Balance sheet

at 31 December 2009

	Notes	*2009* £	*2008* £
Fixed assets			
Asset in the course of construction	9	34,000,000	22,082,000
		34,000,000	22,082,000
Current assets			
Debtors	10	155,821	316,727
Cash at bank and in hand		848,766	726,757
		1,004,587	1,043,484
Creditors: amounts falling due within one year	11	(891,022)	(696,304)
Net current assets		113,565	347,180
Total assets less current liabilities		34,113,565	22,429,180
Creditors amounts falling due after more than one year	12	(33,560,770)	(23,506,385)
		552,795	(1,077,205)
Financed by			
Partners' capital accounts	15	8,325,393	8,325,393
Partners' current accounts	15	(7,772,598)	(9,402,598)
Partners' capital - deficit	15	552,795	(1,077,205)

The financial statements were approved by the General Partner, HEVAF Grafton GP Limited, on 21 JUN 2010 and signed on its behalf by

Director - Ian J P Brown

Statement of cash flows

for the year ended 31 December 2009

	Notes	Year ended 31 December 2009 £	Year ended 31 December 2008 £
Net cash outflow from operating activities	17(a)	(61,388)	(392,284)
Returns on investments and servicing of finance			
Interest received		1,909	26,258
Interest paid		(2,066,503)	(1,740,799)
Cash outflow from returns on investments and servicing of finance		(2,064,594)	(1,714,541)
Capital expenditure and financial investment			
Purchase and expenditure on investment property		(7,686,544)	(3,332,461)
Financing			
Repayment of bank loan		–	(1,260,620)
Receipt of capital contributions		–	7,023,056
Bank loan received		9,934,535	–
Cash inflow from financing		9,934,535	5,762,436
Increase in cash and cash equivalents		122,009	323,150

Reconciliation of net cash flow to movement in net debt

	Notes	2009 £	2008 £
Increase in cash		122,009	323,150
Cash inflow from increase in loans		(9,934,535)	–
Cash outflow from repayment of loans		–	1,260,620
Change in net debt arising from cash flows		(9,812,526)	1,583,770
Amortisation of bank loan fees		(119,848)	(127,838)
Movement in net debt		(9,932,374)	1,455,932
Net debt at 1 January	17(b)	(22,779,630)	(24,235,562)
Net debt at 31 December	17(b)	(32,712,004)	(22,779,630)

Notes to the financial statements

at 31 December 2009

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 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 facility or refinance it when it becomes due for repayment The Partnership has a bank loan facility with Abbey of £43 5 million that had a balance of £33 7 million drawn down as at 31 December 2009 The Partnership also has access to a further £2 1 million from the receipts from the closing out of an FX forward contract in January 2010 The loan is funding the development of the Partnership's asset in the course of construction and is secured on the asset The bank loan is due for repayment in January 2011 The net realisable value of the asset in the course of construction as at 31 December 2009 is £34 0 million, which is only slightly above the loan balance as at 31 December 2009 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 has improved strongly since the last valuation date (31 December 2009) 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 2009

1. Accounting policies (continued)

Taxation

No taxation is provided as the tax liabilities on the Partnership's profit are a liability of the partners and not of the Partnership

Carrying amount of debt and allocation of loan issue costs

Debt instruments, such as bank loans, are stated at their net proceeds (ie, after deduction of loan issue costs) on issue Issue costs are amortised to the profit and loss account over the life of the instrument and are included in interest payable

Derivative instruments

The Partnership uses interest rate swaps to adjust interest rate exposures Interest rate swaps are accounted for on a cost basis and assessed for impairment The fair value of the interest rate swaps is not recorded in the balance sheet but included as a disclosure in the notes to the financial statements The fair values of the derivatives held at the balance sheet date are determined by reference to their market value If they are terminated early, the gain/ loss is taken to the profit and loss account

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction, or where appropriate, at the rate of exchange in a related forward exchange contract Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date All differences are taken to the profit and loss account with the exception of differences on foreign currency borrowings, to the extent that they are used to finance or provide a hedge against foreign equity investments, which are taken directly to reserves together with the exchange difference on the carrying amount of the related investments Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in reserves

2. Principal activities

The principal activities comprise property investment and management of commercial property development

The Partnership holds the leasehold title to the property located at 1 Grafton Street, London

HEVAF Grafton GP Limited, acting as General Partner, had a legal interest of 0 01% in the Partnership HEVAF Office Grafton Sarl, acting as limited partner, had an interest of 99 99% in the Partnership

3. Turnover

	Year ended 31 December 2009	*Year ended 31 December 2008*
	£	*£*
Rental income	–	12,983

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

Notes to the financial statements

at 31 December 2009

4. Operating loss

This is stated after charging

	Year ended 31 December 2009	*Year ended 31 December 2008*
	£	*£*
Auditors' remuneration		
- For the statutory audit of the financial statements	21,150	21,150
Total auditors' remuneration	21,150	21,150

The Partnership also incurred £3,500 (2008 - £nil) in audit fees in respect of HEVAF Grafton GP Limited, its general partner

5. Exceptional Items

Recognised below operating profit

	2009	*2008*
	£	*£*
Reversal of impairment/ loss on impairment of asset in the course of construction	4,231,454	(5,249,817)

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

	2009	*2008*
	£	*£*
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 (2008 – none)

7. Interest receivable and similar income

	Year ended 31 December 2009	*Year ended 31 December 2008*
	£	*£*
Bank interest	1,909	26,258

Notes to the financial statements

at 31 December 2009

8. Interest payable and similar charges

	Year ended 31 December 2009	*Year ended 31 December 2008*
	£	*£*
Interest payable on bank loans and overdraft	2,066,503	1,764,438
Amortisation of loan issue costs	119,848	127,838
	2,186,351	1,892,276

9. Tangible fixed assets

	Asset in the course of construction
	£
At cost	
At 31 December 2008	27,331,817
Additions	7,686,546
At 31 December 2009	35,018,363
Impairment	
At 31 December 2008	5,249,817
Reversal of impairment during the year	(4,231,454)
At 31 December 2009	1,018,363
Net Book Value at 31 December 2009	34,000,000
Net Book Value at 31 December 2008	22,082,000

In accordance with FRS 11 'Impairment of Fixed Assets and Goodwill' the carrying value of the asset in the course of construction has been compared to its recoverable amount, represented by its net realisable value The net realisable value has been derived by suitably qualified directors of the General Partner, in accordance with the appraisal and valuation standards of the Royal Institution of Chartered Surveyors (RICS), after considering a valuation prepared by independent professional chartered surveyors, DTZ Debenham Tie Leung together with other information on the asset

As the property is in the course of development, the property has been valued based on the current market value of the property on the assumption it had already been completed at the balance sheet date less the current estimate of the costs still required to complete the project, including an appropriate adjustment for risk The costs still required to complete the development include the cost of construction, professional fees, marketing fees, letting fees, finance costs and disposal costs

Notes to the financial statements

at 31 December 2009

10. Debtors

	2009	2008
	£	£
Other debtors	125,932	151,789
Prepayments and accrued income	29,889	164,938
	155,821	316,727

11. Creditors: amounts falling due within one year

	2009	2008
	£	£
Trade creditors	47,446	449,900
Amounts owed to group companies	25,463	29,893
Other creditors	2,937	2,939
Accruals and deferred income	815,176	213,572
	891,022	696,304

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

	2009	2008
	£	£
Bank loans (see note 13)	33,560,770	23,506,385

Notes to the financial statements

at 31 December 2009

13. Bank loans

Loans repayable, included within creditors, are analysed as follows

	2009	2008
	£	£
Bank loan wholly repayable within 1 - 2 years	33,688,499	23,753,963
Less issue costs	(127,729)	(247,578)
	33,560,770	23,506,385

The bank loan is secured by a charge over the asset in the course of construction The loan attracts interest at LIBOR plus 1 2% and will not be repayable until January 2011

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

The Partnership holds an interest rate swap over part of the above bank loan facility to manage interest rate risk volatility The fair values of the derivatives held at the balance sheet date, determined by reference to their market values, are as follows

	2009	2008
	£	£
Interest rate swaps	(854,222)	(1,737,978)

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

Notes to the financial statements

at 31 December 2009

14. Partners' accounts

Capital accounts

	HEVAF Grafton Office Sarl	*HEVAF Grafton GP Limited*	*Total*
	£	*£*	*£*
At 31 December 2008	8,325,380	13	8,325,393
Capital contribution	–	–	–
At 31 December 2009	8,325,380	13	8,325,393

Current accounts

	HEVAF Grafton Office Sarl	*HEVAF Grafton GP Limited*	*Total*
	£	*£*	*£*
At 31 December 2008	(9,401,658)	(940)	(9,402,598)
Profit for the year	1,629,837	163	1,630,000
At 31 December 2009	(7,771,821)	(777)	(7,772,598)

15. Reconciliation of partners' capital and movement on reserves

	Partners' capital accounts	*Partners' current accounts*	*Partners' capital*
	£	*£*	*£*
At 31 December 2007	1,302,337	(1,905,676)	(603,339)
Capital Contribution	7,023,056	–	7,023,056
Loss for the year	–	(7,496,922)	(7,496,922)
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

Notes to the financial statements

at 31 December 2009

16. Related parties

During the period, the Partnership purchased services in the normal course of business from Hines UK Limited, a related party, for £80,000 (2008 – £80,000) At 31 December 2009, the amount owed to Hines UK Limited was £23,364 (2008 –£24,794)

The Partnership owes £2,099 (2008 – £Nil) 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 2009	*Year ended 31 December 2008*
	£	*£*
Operating loss	(417,012)	(381,087)
Decrease in debtors	160,906	(67,159)
Increase in creditors	194,718	55,963
Net cash outflow from operations	(61,388)	(392,284)

(b) Analysis of changes in net debt

	At 31 December 2008	*Cash flows*	*Other*	*At 31 December 2009*
	£	*£*	*£*	*£*
Cash in hand and at bank	726,757	122,009	–	848,766
Debt due after more than one year	(23,506,387)	(9,934,535)	(119,848)	(33,560,770)
	(22,779,630)	(9,812,526)	(119,848)	(32,712,004)

18. Derivatives

The Partnership purchased a forward foreign exchange contract to manage foreign exchange exposures on capital contributions The fair value of the forward foreign exchange contract held at the balance sheet date, determined by reference to its market value, is £2,366,111 (2008 £3,376,029)

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