

Registered No. 05608498

Pembroke Grafton GP Limited

Report and Financial Statements

For the year ended 31 December 2016



Pembroke Grafton GP Limited

Directors

Johannes Haug
Heather Paduck (resigned 22 July 2016)
Nicholas Moldon
Lauren Sullivan (appointed 22 July 2016)

Independent Auditors

PricewaterhouseCoopers LLP
7 More London Riverside
London SE1 2RT

Company Secretary

Citco London Limited

Registered Office

7 Albemarle Street
London
W1S 4HQ
United Kingdom

Pembroke Grafton GP Limited

Directors' report

The directors present their report and financial statements for Pembroke Grafton GP Limited (the "Company") for the year ended 31 December 2016.

Results and dividends

The result for the financial year ended 31 December 2016 amounted to a loss of €27,607 (*2015: loss of £15,828*). The directors do not recommend the payment of a dividend (*2015: £nil*).

Principal activities and review of the business

The principal activity of the Company will continue to be to act as the general partner to Pembroke Grafton Limited Partnership (formerly known as HEVAF Grafton LP Limited).

Going concern

In assessing whether the going concern basis of preparation is appropriate to adopt, the directors considered a number of factors including financial projections of the Company and the level of financial support that will be made available to the company by Pembroke Grafton Limited Partnership and Horizon Real Estate Investors LLC. In addition, the directors assessed the risk of group companies related to the Company requesting settlement of the balances due to them. Based on this review the directors have concluded that there exists no material uncertainty as regards to the Company having sufficient resources to continue in operational existence for the foreseeable future and have therefore prepared the financial statements on a going concern basis.

Post balance sheet event

There are no significant post balance sheet events.

Pembroke Grafton GP Limited

Directors' report

Directors

The directors of the Company who were in office during the year and up to the date of signing of the financial statements were:

Johannes Haug
Heather Paduck (resigned 22 July 2016)
Nicholas Moldon
Lauren Sullivan (appointed 22 July 2016)

Small company exemptions

The Directors' Report has been prepared taking advantage of the small companies exemption in accordance with S415A of the Companies Act 2006 (the "Act"). The Company has also taken the exemption under S414B of the Act, and therefore has not prepared a Strategic Report.

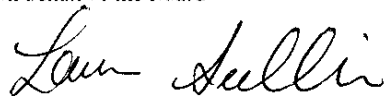
Qualifying third party indemnity provisions

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 has been in place throughout the year and 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 auditors in connection with preparing its report, of which the auditors are unaware. 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 auditors are aware of that information.

On behalf of the Board



Director: Lauren Sullivan

Date: 24 March 2017

Statement of Directors' responsibilities

Statement of Directors' Responsibilities

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

Company law require the Directors to prepare the financial statements for each financial year. Under that law the Directors have prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland (FRS 102).

Under company law the Directors must not approve financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit and loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and the apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable United Kingdom Accounting Standards, including FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- Notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 102 use in the preparation of financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and 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.

Pembroke Grafton GP Limited

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

Report on the financial statements

Our opinion

In our opinion, Pembroke Grafton GP Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its loss and cash flows 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.

What we have audited

The financial statements, included within the Report and Financial Statements (the "Annual Report"), comprise:

- the Statement of Financial Position as at 31 December 2016;
- the Statement of Comprehensive Income for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters prescribed by the Companies Act 2006

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

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

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

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

Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

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) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.



Thomas Norrie (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

24 March 2017

Pembroke Grafton GP Limited

Financial Statements for the year ended 31 December 2016

Statement of Comprehensive Income
for the year ended 31 December 2016

	Note	2016 £	2015 £
Costs		(27,607)	(15,828)
Operating Loss	3	(27,607)	(15,828)
Finance Costs		—	—
Loss before Tax		(27,607)	(15,828)
Taxation	4	—	—
Total comprehensive loss for the financial year	9	(27,607)	(15,828)

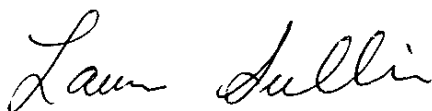
Pembroke Grafton GP Limited

Statement of Financial Position

as at 31 December 2016

	Note	2016 £	2015 £
Current assets			
Investments	5	126	126
Trade receivables	6	2	2
		<u>128</u>	<u>128</u>
Trade payables; amounts falling due within one year	7	(70,047)	(42,440)
Net current liabilities		<u>(70,047)</u>	<u>(42,440)</u>
Total assets less current liabilities		<u>(69,919)</u>	<u>(42,312)</u>
Capital and reserves			
Called up share capital	8	30,002	30,002
Profit and loss account	9	(99,921)	(72,314)
Total shareholders' deficit	9	<u>(69,919)</u>	<u>(42,312)</u>

The financial statements on pages 7 to 14 were approved by the Board and signed on its behalf by Lauren Sullivan.



Date: 24 Nov 2017

Registered No. 05608498

Pembroke Grafton GP Limited

Statement of Changes in Equity

as at 31 December 2016

	<i>Called up Share capital £</i>	<i>Profit and loss account £</i>	<i>Total shareholders' deficit £</i>
At 1 January 2015	30,002	(56,486)	(26,484)
Loss for the financial year and total comprehensive loss	—	(15,828)	(15,828)
At 31 December 2015	30,002	(72,314)	(42,312)
Loss for the financial year and total comprehensive loss	—	(27,607)	(27,607)
At 31 December 2016	30,002	(99,921)	(69,919)

Pembroke Grafton GP Limited

Notes to the financial statements

For the year ended 31 December 2016

1. Accounting policies

Statutory information

Pembroke Grafton GP Limited (the "Company") is a limited company incorporated in England and Wales, registration number 05608498. The registered office is 7 Albemarle Street, London W1S 4HQ, United Kingdom.

Basis of preparation

The financial statements have been prepared under the historical cost convention in accordance with generally accepted United Kingdom accounting standards (UK GAAP), and the Companies Act 2006. The principal accounting policies, which have been consistently applied throughout the year, are set out below.

These financial statements for the year ended 31 December 2016 comply with FRS 102 as applicable from 1 January 2016.

Going concern

In assessing whether the going concern basis of preparation is appropriate to adopt, the Directors considered a number of factors including financial projections of the Company and the level of financial support that will be made available to the company by Pembroke Grafton Limited Partnership. In addition, the Directors assessed the risk of group companies related to the Company requesting settlement of the balances due to them. Based on this review the Directors have concluded that there exists no material uncertainty as regards to the Company having sufficient resources to continue in operational existence for the foreseeable future and have therefore prepared the financial statements on a going concern basis.

Statement of cash flows

The Company has not prepared a statement of cash flows for the year ended 31 December 2016 because there have been no cash movements within the year.

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 exceptions:

- 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.

Pembroke Grafton GP Limited

Notes to the financial statements

For the year ended 31 December 2016

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.

Non-current asset investments

Non-current 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 2016 (2015: none).

The Directors have received £nil remuneration in respect of their services to the Company during the year ended 31 December 2016 (2015: £nil).

3. Operating loss

This is stated after charging of the following administrative costs:

	2016 £	2015 £
-Auditors remuneration	6,500	7,080
-Tax compliance services	4,200	4,200
Total auditors' remuneration	10,700	11,280

The auditors' remuneration fees for audit services were £6,500 for 2016 (£7,080 was paid for 2015 with the fee being borne by Pembroke Grafton Limited Partnership). Non-audit fees paid to the auditors in 2016, in respect of tax compliance services amounted to £4,200 (2015: £4,200).

4. Tax

(a) Taxation on loss on ordinary activities

UK corporation tax

	2016 £	2015 £
UK corporation tax	—	—

Pembroke Grafton GP Limited

Notes to the financial statements

For the year ended 31 December 2016

4. Tax (continued)

(b) Factors affecting current tax charge

The total current tax is higher (2015: higher) than the tax on ordinary activities based on the standard rate of corporation tax in the UK of 20%. The differences are reconciled below:

	2016 £	2015 £
Loss on ordinary activities before tax	(27,607)	(15,828)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 20% (2015: 20.25%)	(5,521)	(3,205)
Tax losses not carried forward	5,521	3,205
Total tax charge (note 4(a))	—	—

(c) Factors affecting future tax charges

There are tax losses of £100,823 (2015: £73,216) 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.

5. Investments

Cost:	£
At 1 January 2016 and 2015	126
At 31 December 2016 and 2015	126

The investment relates to a 0.01% holding in the Pembroke Grafton Limited Partnership, a partnership registered in England. In accordance with the Partnership Deed dated 16 February 2006, the Company, as General Partner, is entitled to 0.01% of any profits or losses that Pembroke Grafton Limited Partnership makes.

The Directors believe that the carrying value of the investments is supported by their underlying net assets.

Pembroke Grafton GP Limited

Notes to the financial statements

For the year ended 31 December 2016

6. Trade Receivables

	2016	2015
	£	£
Amounts owed by group undertakings	2	2

7. Trade Payables: amounts falling due within one year.

	2016	2015
	£	£
Amounts owed to group undertakings	(44,183)	(29,984)
Amounts owed to other creditors	(25,864)	(12,456)
Total Creditors	(70,047)	(42,440)

There is no interest applied to the intercompany balances and there is no fixed repayment date.

8. Called up share capital

	2016	2015
<i>Authorised</i>	£	£
Ordinary shares of £1 each	30,100	30,100
	<u>30,100</u>	<u>30,100</u>
	2016	2015
<i>Allotted, called up and fully paid</i>	£	£
Ordinary shares of £1 each	30,002	30,002
	<u>30,002</u>	<u>30,002</u>

Pembroke Grafton GP Limited

Notes to the financial statements

For the year ended 31 December 2016

9. Reconciliation of movements in shareholders' deficit and movements in reserves

	<i>Called up Share capital £</i>	<i>Profit and loss account £</i>	<i>Total shareholders' deficit £</i>
At 1 January 2015	30,002	(56,486)	(26,484)
Loss for the financial year and total comprehensive loss	–	(15,828)	(15,828)
At 31 December 2015	30,002	(72,314)	(42,312)
Loss for the financial year and total comprehensive loss	–	(27,607)	(27,607)
At 31 December 2016	30,002	(99,921)	(69,919)

10. Contingent liabilities

None noted.

11. Related party transactions

In accordance with exemptions available under FRS 102, the Company has not disclosed details of certain transactions and balances with group undertakings. Balances at year end held with related parties are however disclosed in notes 6 and 7 of the financial statements.

12. Post balance sheet event

There are no significant post balance sheet events.

13. Parent undertaking and controlling party

As at 31 December 2016, the immediate and ultimate parent undertaking is Horizon Real Estate Investors LLC, which is registered in the United States of America. The registered office is 245 Summer Street, F3B, Boston, MA 02210.

Registered No: LP010987

Pembroke Grafton Limited Partnership

Report and Financial Statements

For the year ended 31 December 2016

FRIDAY

Pembroke Grafton Limited Partnership

Partners

Pembroke Grafton Office Sarl
Pembroke Grafton GP Limited

General Partner

Pembroke Grafton GP Limited

Independent Auditors

PricewaterhouseCoopers LLP
7 More London Riverside
London, SE1 2RT

Registered Office

7 Albemarle Street
London
W1S 4HQ
United Kingdom

Pembroke Grafton Limited Partnership

General partner's report

The General Partner presents its report and financial statements for Pembroke Grafton Limited Partnership ('the Partnership') for the year ended 31 December 2016.

Results

The profit for the financial year amounted to £1,341,416 (2015: £10,902,224).

Review of the business

The Partnership is registered pursuant to the provisions of The Limited Partnerships Act 1907.

Future developments

The Partnership intends to continue with its current activities for the foreseeable future.

Post Balance Sheet Event

There are no significant post balance sheet events.

Principal risks and uncertainties

The Partnership's operations expose it to a variety of financial risks that include valuation risk, interest rate risk, credit risk, price risk and liquidity risk.

Interest rate risk

The Partnership's exposure to interest rate movements relates primarily to long term debt obligations. In order to ensure stability of cash out flows and hence manage interest rate risk, the Partnership uses an interest rate cap to manage interest rate costs. The effects on cash flows that could arise as a result of changes in interest rates are taken into account when obtaining a borrowing facility and the Partnership's policy is to manage its interest costs using interest rate caps to cap the interest payable on its variable interest loan.

Price risk

The Partnership also incurs price risk in relation to fluctuations in the fair value of the derivatives and investment properties. The fair value of the interest rate cap is based on the present value of the expected future net interest at values marked to market by the bank. The fair value of investment properties is determined using the direct capitalisation method.

Credit risk

Credit risk is the risk that the counterparty will be unable or unwilling to meet a commitment that it has entered into with the Partnership. The Partnership's principal credit risk arises from trade receivables which comprise rents due from tenants. In the event of a rent default the Partnership will suffer a rental shortfall and incur additional costs, including legal expenses, in maintaining, insuring and re-letting the property until a new tenant is secured. The Partnership controls credit risk by requiring collateral to support accounts receivable. Tenant rents are payable quarterly in advance, with most tenants paying on or around the due date. There is a credit control team which actively chases any tenant who does not pay on time and the credit controller then liaises with the Property Manager regarding any further action to be taken. As at year end, a total of £2,691 is overdue, greater than 30 days. This consists of an intercompany balance net of 5 tenants with credit balances.

Credit risk also arises from the other financial assets of the Partnership, which comprise cash and cash equivalents and derivative financial instruments. The Partnership's risk arises from its dependency on these financial assets; and furthermore from the results of the organisations that provide these financial instruments. Cash and cash equivalents are limited to high-credit-quality financial institutions. The majority of the Partnership's cash is held at major commercial banks. The Partnership believes it mitigates its risks by depositing cash in or investing through major financial institutions. The counterparty for derivatives is the bank providing lending facilities which mitigates the risk.

Pembroke Grafton Limited Partnership

General partner's report (continued)

Liquidity risk

Liquidity risk arises from the Partnership's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Partnership will encounter difficulty in meeting its financial obligations as they fall due. The Partnership's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due.

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 auditors in connection with preparing its report, of which the auditors are unaware. Having made enquiries of the Partnership's auditors, the General Partner has taken all the steps that it is obliged to take as the general partner in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Small company exemptions

The Partnership has taken the exemption in accordance with S414B of the Companies Act 2006 (the "Act"), and therefore has not prepared a Strategic Report.

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



Lauren Sullivan
Director

Date: 24 March 2017

Pembroke Grafton Limited Partnership

Statement of General Partner's responsibilities

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

Company law as applied to qualifying partnerships by the Partnerships (Accounts) Regulations 2008 (the "Regulations") requires the members to prepare the financial statements for each financial year. Under that law the General Partner has prepared the partnership financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland (FRS 102).

Under company law as applied to qualifying partnerships the General Partner must not approve financial statements unless it is satisfied that they give a true and fair view of the state of affairs of the Partnership and of the profit and loss of the Partnership for that period. In preparing these financial statements, the General Partner is required to:

- Select suitable accounting policies and the apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable United Kingdom Accounting Standards, including FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- Notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 102 use in the preparation of 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 adequate accounting records that are sufficient to show and explain the Partnership's transactions and disclose with reasonable accuracy at any time the financial position of the Partnership and enable them to ensure that the financial statements comply with the Companies Act 2006 as applied to qualifying partnerships by Regulations. They are also responsible 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 members of Pembroke Grafton Limited Partnership

Report on the financial statements

Our opinion

In our opinion, Pembroke Grafton Limited Partnership's financial statements (the "financial statements"),

- give a true and fair view of the state of the qualifying partnership's affairs as at 31 December 2016 and of its profit and cash flows 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 as applied to qualifying partnerships by the Partnerships (Accounts) Regulations 2008.

What we have audited

The financial statements, included within the Report and Financial Statements (the "Annual Report"), comprise:

- the Statement of Financial Position as at 31 December 2016;
- the Statement of Comprehensive Income for the year then ended;
- the Statement of Cash Flows for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the general partner has made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, it has made assumptions and considered future events.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

General Partner's remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of general partner's remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the general partner were not entitled to take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the general partner

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) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for the members of the qualifying partnership as a body in accordance with the Companies Act 2006 as applied to qualifying partnerships by the Partnerships (Accounts) Regulations 2008 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). 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 general partner; and

Pembroke Grafton Limited Partnership

- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the general partner's judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Thomas Norrie (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

24 March 2017

Pembroke Grafton Limited Partnership

Statement of Comprehensive Income

for the year ended 31 December 2016

		2016 £	2015 £
	<i>Notes</i>		
Revenue	4	3,206,711	3,143,617
Costs		(1,223,625)	(901,326)
Gross profit		<u>1,983,086</u>	<u>2,242,291</u>
Gain on Revaluation of investment properties	9	668,821	10,094,097
Operating profit		<u>2,651,907</u>	<u>12,336,388</u>
Finance Income	7	385	493
Finance Costs	8	(1,310,876)	(1,434,657)
Profit before Tax		<u>1,341,416</u>	<u>10,902,224</u>
Taxation		-	-
Profit for the financial year and total comprehensive income	13	<u>1,341,416</u>	<u>10,902,224</u>

Pembroke Grafton Limited Partnership

Statement of Financial Position

as at 31 December 2016

	Notes	2016 £	2015 £
<i>Non-current assets</i>			
Investment property	9	89,668,901	88,975,199
		<u>88,668,901</u>	<u>88,975,199</u>
<i>Current assets</i>			
Trade Receivables	10	3,130,233	2,685,424
Cash		<u>1,160,675</u>	<u>1,845,647</u>
		4,290,908	4,531,071
<i>Trade payables:</i> amounts falling due within one year	11	(2,615,714)	(3,323,991)
<i>Net current assets</i>		<u>1,675,194</u>	<u>1,207,080</u>
<i>Total assets less current liabilities</i>		91,344,094	90,182,279
<i>Trade payables:</i> amounts falling due after more than one year	12	(39,705,157)	(39,884,758)
		<u>51,638,937</u>	<u>50,297,521</u>
<i>Financed by</i>			
Partners' capital accounts	13	10,942,000	10,942,000
Partners' current accounts	13	<u>40,696,937</u>	<u>39,355,521</u>
<i>Partners' capital</i>		<u>51,638,937</u>	<u>50,297,521</u>

The financial statements on pages 7-19 were approved by the General Partner, Pembroke Grafton GP Limited and signed on its behalf by:



Lauren Sullivan
Director

Date: 24 March 2017

Registered number: LP010987

Pembroke Grafton Limited Partnership
Statement of Changes in Equity

for the year ended 31 December 2016

	Partners' capital accounts £	Partners' current accounts £	Total Partners' capital £
At 1 January 2015	10,942,000	28,453,297	39,395,297
Profit for the financial year and comprehensive income	-	10,902,224	10,902,224
At 31 December 2015	10,942,000	39,355,521	50,297,521
Profit for the financial year and comprehensive income	-	1,341,416	1,341,416
At 31 December 2016	10,942,000	40,696,937	51,638,937

Pembroke Grafton Limited Partnership
Statement of Cash Flows

for the year ended 31 December 2016

		2016 £	2015 £
<i>Cash flow from operating activities</i>	<i>Notes</i>		
	<i>15(1)</i>	1,429,023	4,018,450
Taxation paid		-	-
<i>Net cash generated from operating activities</i>		<u>1,429,023</u>	<u>4,018,450</u>
<i>Cash flow from investing activities</i>			
Interest received		385	493
<i>Net cash generated from investing activities</i>		<u>385</u>	<u>493</u>
<i>Cash flow from financing activities</i>			
Interest paid		(1,124,381)	(1,069,057)
Internal loan repayment		(990,000)	(1,900,000)
<i>Net cash used in financing activities</i>		<u>(2,114,381)</u>	<u>(2,969,057)</u>
<i>Net increase/(decrease) in cash and cash equivalents</i>		(684,973)	1,049,886
<i>Cash and cash equivalents at the beginning of the year</i>		1,845,647	795,761
<i>Cash and cash equivalents at the end of the year</i>		<u>1,160,675</u>	<u>1,845,647</u>
<i>Cash and cash equivalents consists of:</i>			
Cash at bank and in hand		1,160,675	1,845,647
Short term deposits		-	-
<i>Cash and cash equivalents</i>		<u>1,160,675</u>	<u>1,845,647</u>

Pembroke Grafton Limited Partnership

Notes to the financial statements

For the year ended 31 December 2016

1. Accounting policies

Statutory information

Pembroke Grafton Limited Partnership (the "Partnership") is a limited partnership incorporated in England and Wales, registration number LP010987. The registered office is 7 Albemarle Street, London, W1S 4HQ, United Kingdom.

Pembroke Grafton GP Limited (the "Company") is a general partnership incorporated in England and Wales, registration number 05608498. The registered office is 7 Albemarle Street, London, W1S 4HQ, United Kingdom.

Basis of preparation

The financial statements have been prepared under the historical cost convention as modified to include the revaluation of certain assets in accordance with generally accepted accounting standards in the United Kingdom ("UK GAAP"). The financial statements are prepared under the requirements of the Companies Act 2006 as it applies to qualifying partnerships by the Partnership (Accounts) Regulations 2008. The principal accounting policies, which have been consistently applied throughout the year, are set out below.

Going concern

The General Partner has reviewed cash flow forecasts until 2018 that show a net cash inflow from operating activities. The group had surplus cash reserves. The maturity profile of the existing debt covenant position and derivatives are further detailed in notes 10 and 12.

The expected cash flow generation and existing cash balances provide the General Partner with the view that the group will continue in operation for the foreseeable future and accordingly these financial statements have been prepared on a going concern basis.

Revenue recognition

Rental income is credited to revenue on an accrual basis. The cost of lease incentives is allocated on a straight line basis over the lease term.

Lessor accounting

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. FRS 102 requires a lease incentive to be measured over the lease term and not just until the rent review date. Under existing GAAP the lease incentives are spread over the shorter of the lease term and the period to the first market rent review. In accordance with FRS 102, the Partnership has applied the historical method for all leases signed before the transition date. All lease incentives in relation to leases signed before the transition date are measured to the rent review but future leases will be measured over the life of the lease or lease termination option date.

Initial direct costs incurred in negotiating and arranging an operating lease as a lessor are added to the carrying amount of the lease asset and are recognised as an expense over the lease term on the same basis as the lease income.

The following table sets out the future minimum lease payments under non-cancellable operating leases due.

(All amounts in GBP)	Within 1 year	Later than 1 year and less than 5 years	Later than 5 years	Total
Rent due	2,997,870	12,694,692	2,533,234	18,225,796

There is no contingent rent recognised as income in 2016. There are multiple retail, office and residential tenants on multiple leases. The majority of the rental income relates to fixed income received on a quarterly basis.

The Partnership's property is held for long term investment. Investment property is accounted as follows.

Pembroke Grafton Limited Partnership

Notes to the financial statements

For the year ended 31 December 2016

1. Accounting policies (continued)

Investment properties

Investment property is revalued annually. The unrealized gain and/or loss is recognized within the statement of comprehensive income.

Although the Companies Act would normally require the systematic annual depreciation of leased fixed assets the General Partner believes that the policy of not providing depreciation is necessary in order for the financial statements to provide a true and fair view, since the current value of investment properties, and changes to that current value, are of prime importance rather than a calculation of systematic annual depreciation. Depreciation is only one of the many factors reflected in the annual valuation, and the amount which might otherwise have been included cannot be separately identified or quantified.

The valuation of the property is inherently subjective due to factors such as location and expected future rental revenues. Consequently, the valuation of the property is subject to a degree of uncertainty and is made on the basis of assumptions which may not prove to be accurate. The property was valued by Savills UK in March 2016, an experienced and reputable company. The estimates used are in line with industry standards and have used assumptions based on, but not limited to, matters such as tenancy details, ground and structural conditions of the properties and comparable market transactions. The valuation as at December 2016 is performed by Pembroke Real Estate, Inc., the investment advisor to the Partnership (the "Advisor") as at 31 December 2016 using the direct capitalization method for valuation. This valuation has been reviewed by the General Partner. The valuation is based upon 10 years with a discount rate of 4.75% and a net exit yield of 4.0%.

Taxation

No taxation is provided as the tax liabilities on the Partnership's profit are liabilities 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 (i.e. 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 and similar charges.

Derivative instruments

The Partnership has used an interest rate cap to adjust interest rate exposure arising from financial activities. All derivatives are recognised at their fair value. Derivatives are carried in the balance sheet as assets when their fair value is positive and as liabilities when their fair value is negative. The interest rate cap is classified as financial asset at fair value through profit or loss. Any gains or losses arising from changes in fair value on derivatives during the year are taken directly to the profit and loss account through other finance income. Hedge accounting is not applied.

Fair value is the value at which a position could be closed out or sold in a transaction to a willing and knowledgeable counterparty over a reasonable period of time under current market conditions. Fair values of the Partnership's derivatives are determined by reference to observable market prices and so valued using quoted prices obtained from financial institutions where available.

Capitalisation of finance costs

Loan arrangement fees and similar issue costs are capitalized against the loan to which they relate in line with FRS 102. These costs are subsequently amortised over the life of the loan (note 8).

2. Principal activities

The principal activities of the business comprise of 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 2011, the asset was classified in the financial statements as an investment property and continues to be classified as such. On 21 February 2013 the Partnership was renamed from HLVAF Grafton Limited Partnership to Pembroke Grafton Limited Partnership.

Pembroke Grafton GP Limited, acting as General Partner, has a legal interest of 0.01% in the Partnership. Pembroke Office Grafton SurL, acting as Limited Partner, has an interest of 99.99% in the Partnership.

Pembroke Grafton Limited Partnership

Notes to the financial statements

For the year ended 31 December 2016

3. Financial risks

Interest rate risk

The Partnership's exposure to interest rate movements relates primarily to long term debt obligations. In order to ensure stability of cash out flows and hence manage interest rate risk the Partnership uses an interest rate cap to manage interest rate costs. The cap is 3.7% and the average interest rate for 2016 was 2.7%. The effects on cash flows that could arise as a result of changes in interest rates are taken into account when obtaining a borrowing facility and the Partnerships' policy is to manage its interest costs using interest rate caps to cap the interest payable on its variable interest loan. The effect on the Partnership's profit and equity of a 0.5% decrease or increase in comparison to the current interest rate of 2.6% with all other variables held constant would be approximately £193k. In the event the rate reached the 3.7% cap from the current 2.6% level, the Partnership's profit and equity would be adversely impacted by approximately £424k per annum.

Credit risk

Credit risk is the risk that the counterparty will be unable or unwilling to meet a commitment that it has entered into with the Partnership. The Partnership's principal credit risk arises from trade receivables which comprise rents due from tenants. In the event of a rent default the Partnership will suffer a rental shortfall and incur additional costs, including legal expenses, in maintaining, insuring and re-letting the property until a new tenant is secured. The Partnership controls credit risk by requiring collateral to support accounts receivable. Tenant rents are payable quarterly in advance, with most tenants paying on or around the due date. There is a credit control team which actively chases any tenant who does not pay on time and the credit controller then liaises with the Property Manager regarding any further action to be taken. As at year end, a total of £2,691 is overdue, greater than 30 days. This consists of an intercompany balance net of 5 tenants with credit balances.

Credit risk also arises from the other financial assets of the Partnership, which comprise cash and cash equivalents and derivative financial instruments. Cash and cash equivalents are limited to high-credit-quality financial institutions. The majority of the Partnership's cash is held at major commercial banks. The Partnership believes it mitigates its risks by depositing cash in or investing through major financial institutions. The counterparty for derivatives is the bank providing lending facilities which mitigates the risk.

Price risk

The Partnership also incurs price risk in relation to fluctuations in the fair value of the derivatives and investment properties. The fair value of the interest rate cap is based on the present value of the expected future net interest at values marked to market by the bank. The fair value of investment properties is determined using the direct capitalisation method.

It is required to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels.

- i) Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- ii) Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and
- iii) Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table analyses within the fair value hierarchy the Partnership's financial assets measured at fair value at 31 December 2016.

(All amounts in GBP)	Level 1	Level 2	Level 3	Total
Interest rate cap	-	2,104	-	2,104

Pembroke Grafton Limited Partnership

Notes to the financial statements

For the year ended 31 December 2016

3. Financial risks (continued)

Liquidity risk

Liquidity risk arises from the Partnership's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Partnership will encounter difficulty in meeting its financial obligations as they fall due. The Partnership's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. The following table sets out the contractual maturities (representing undiscounted contractual cash-flows) of financial liabilities and receivables.

(All amounts in GBP)	3 months or less	More than 3 months and less than 1 year	More than 1 year	Total
Trade and other receivable	334,437	1,233,153	1,562,643	3,130,233
Current liabilities				
Trade and other payables	1,697,405	-	-	1,697,405
Payables to group	-	918,308	-	918,308
Non-Current liabilities				
Bank Facility Drawdown	-	-	38,121,914	38,121,914
Taxes payable	-	-	-	-
Security Deposits payable	-	-	1,583,243	1,583,243

4. Revenue

	2016 £	2015 £
Rental income	2,893,957	2,553,908
Service charge income	324,923	521,423
Other operating income	(12,169)	23,186
	<u>3,206,711</u>	<u>3,143,617</u>

Revenue represents amounts receivable in respect of property rentals and service charges, provided in the normal course of business, and is stated net of value added tax. All revenue relates to one geographical market, the United Kingdom.

Pembroke Grafton Limited Partnership

Notes to the financial statements

For the year ended 31 December 2016

5. Operating profit

	2016	2015
	£	£
This is stated after charging		
- For the statutory audit of the financial statements	21,600	26,000
- For tax services	14,580	14,580
Total auditors' remuneration	<u>36,180</u>	<u>40,580</u>

The auditors' remuneration fees for audit services were £21,600 for 2016 (£26,000 in 2015). Non-audit fees incurred to the auditors in 2016, in respect of tax compliance services amounted to £14,580 (2015: £14,580).

6. Staff costs

The Partnership had no employees during the year ended 31 December 2016 (2015: none).

7. Finance Income

	2016	2015
	£	£
Bank interest	385	493
	<u>385</u>	<u>493</u>

8. Finance costs

	2016	2015
	£	£
Finance costs on bank loans	1,170,191	1,070,541
Amortisation of loan issue costs	140,685	140,685
	<u>1,310,876</u>	<u>1,434,657</u>

9. Investment property

	Investment Property £
Valuation:	
At 31 December 2015	88,975,199
Gain on revaluation	668,821
Additions	<u>24,882</u>
At 31 December 2016	<u>89,668,901</u>
Net Book Value at 31 December 2016	<u>89,668,901</u>
Net Book Value at 31 December 2015	<u>88,975,199</u>

Pembroke Grafton Limited Partnership

Notes to the financial statements

For the year ended 31 December 2016

9. Investment property (continued)

The historical cost of the investment property is €42,559,872 (2015: €42,559,872)

The Company has reviewed the Advisor's valuation at 31 December 2016. The direct capitalisation method has been used for valuation.

10. Trade receivables

	2016 €	2015 €
Amounts owed by group undertakings	53,559	38,402
Other trade receivables	2,840,957	1,921,272
Prepayments and accrued income	40,489	32,400
Unamortized lease incentives	193,124	579,569
Fair value of interest rate cap	<u>2,104</u>	<u>113,781</u>
	<u>3,130,233</u>	<u>2,685,424</u>

Included in other trade receivables there is an amount of €1,583,243 (2015: €1,647,722) that represents tenant paid deposits held on restricted cash accounts. A corresponding amount is included within other trade payables in note 12.

On 3 June 2013 (effective date 16 October 2013) the Partnership entered into an Interest Rate Cap agreement. This agreement had the effect of limiting the effective interest rate on the bank loan (note 12) to a maximum of 3.7%.

11. Trade Payables: amounts falling due within one year

	2016 €	2015 €
Amounts owed to group undertakings	918,309	1,908,308
Other trade payables	351,369	147,397
Accruals and deferred income	1,140,217	1,045,499
Interest payable on bank loans	<u>205,819</u>	<u>222,787</u>
	<u>2,615,714</u>	<u>3,323,991</u>

To fund the acquisition of the property, the Partnership entered into a promissory note with Horizon Real Estate Investors LLC (HREI) in the amount of €5,608,308 on the completion date. The promissory note bears 0% interest. On 31 May 2013 HREI assigned its rights to the promissory note to Pembroke Grafton Office S.a.r.l. On 25 November 2014 the Partnership repaid €1,800,000 of the existing promissory note. On 22 April 2015 the Partnership repaid €600,000 and on 29 December 2015 the Partnership repaid €1,300,000 of the existing promissory note. On 20 June 2016 the Partnership repaid €240,000 and on 15 December 2016 the Partnership repaid €750,000 of the existing promissory note.

Pembroke Grafton Limited Partnership

Notes to the financial statements

For the year ended 31 December 2016

12. Trade payables: amounts falling due after more than one year

	Due within 1-2 years	Due within 2-5 years	Due after more than 5 years <i>Instalments</i>	Due after more than 5 years <i>Non-Instalments</i>
2015				
Bank loans less issue costs	-	38,155,033	-	-
Other trade payables	-	82,003	1,647,722	-
2016				
Bank loans less issue costs	-	38,121,914	-	-
Other trade payables	-	-	1,583,243	-

	2016 £	2015 £
Bank loans	38,500,000	38,500,000
Less: issue costs	(378,084)	(344,967)
	<u>38,121,914</u>	<u>38,155,033</u>
Other trade payables	1,583,243	1,729,725
	<u>39,705,157</u>	<u>39,884,758</u>

Included in other trade payables there is an amount of £1,583,243 (2015: £1,647,722) that represents tenant paid deposits held on restricted cash accounts. A corresponding amount is included within other trade receivables in note 10.

On June 28, 2013 the Partnership entered into a loan agreement (the "Agreement") with Deutsche Pfandbriefbank AG for €38,500,000. This loan attracts interest at 3 months LIBOR plus 2.2%. The loan is repayable within 5 years from the date the Partnership entered into the Agreement. Interest accrued should be repaid quarterly on January 16, April 16, July 16 and October 16 in each year.

Debt issuance costs of £697,130 have been capitalized and are amortized over the period of 5 years.

On June 3, 2013 the Partnership entered into a Swap transaction agreement (the "Swap Agreement") effective October 16, 2013 with Deutsche Pfandbriefbank AG for a total premium of £608,000 and a cap rate of 1.5%. The agreement ends 5 years from the date the Partnership entered into the Swap Agreement. The floating rate payments are due quarterly on January 16, April 16, July 16 and October 16 in each year.

The bank loan is secured by a charge over the investment property.

The Company considers that the carrying value of the loan approximates its fair value.

Pembroke Grafton Limited Partnership

Notes to the financial statements

For the year ended 31 December 2016

13. Partners' accounts

Partners' Capital accounts

	<i>Pembroke Grafton Office Sarl</i> £	<i>Pembroke Grafton GP Limited</i> £	<i>Total</i> £
At 31 December 2015	10,941,874	126	10,942,000
At 31 December 2016	10,941,874	126	10,942,000

Partners' Current accounts

	<i>Pembroke Grafton Office Sarl</i> £	<i>Pembroke Grafton GP Limited</i> £	<i>Total</i> £
At 31 December 2015	39,351,586	3,935	39,355,521
Profit for the financial year	1,341,282	134	1,341,416
At 31 December 2016	40,692,868	4,069	40,696,937

14. Related parties

In accordance with exemptions available under FRS 102, the Partnership has not disclosed details of certain transactions and balances with group undertakings. Balances at year end held with related parties are however disclosed in notes 10 and 11 of the financial statements.

15. Notes to statement of cash flows

(1) Reconciliation of gross profit to net cash generated from operating activities

	2016 £	2015 £
Gross Profit	1,983,086	2,242,291
Decrease in amortised lease incentives	386,445	751,629
(Increase)/ Decrease in trade receivables	(831,254)	736,753
(Decrease)/ Increase in trade payables	(109,253)	287,777
	<u>1,429,023</u>	<u>4,018,450</u>

Pembroke Grafton Limited Partnership

Notes to the financial statements

For the year ended 31 December 2016

15. Notes to Statement of Cash flows (*continued*)

(2) Reconciliation of net cash flow to movement in net debt

	2016	2015
	£	£
Decrease: (Increase) in cash	(684,973)	1,049,885
Cash outflow from decrease in loans	990,000	1,900,000
Change in net debt arising from cash flows	(305,027)	2,949,885
Amortisation of bank loan fees	(140,685)	(140,685)
Movement in net debt	(164,342)	2,809,200
Net debt at 1 January	(38,217,695)	(41,026,895)
Net debt at 31 December	(38,053,353)	(38,217,695)

16. Post balance sheet events

There are no significant post balance sheet events.

17. Ultimate parent undertaking and controlling party

The Partnership's ultimate parent undertaking and controlling party is Horizon Real Estate Investors LLC ("Horizon"), established in United States, which indirectly owns the Partnership's limited partners. Pembroke Grafton GP I limited (incorporated in the UK) and Pembroke Grafton Office Sarl (incorporated in the Duchy of Luxembourg).