Company Registration No: 08447905

FAIRTHATCH GR LIMITED

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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COMPANIES HOUSE

FAIRTHATCH GR LIMITED

DIRECTORS AND OFFICERS

DIRECTORS

W K Procter
C C McGill
P A Hallam
M D Watson

SECRETARY

D T Lau

REGISTERED OFFICE

Berkeley House
304 Regents Park Road
London
N3 2JX

AUDITOR

RSM UK Audit LLP
Chartered Accountants
3rd Floor
One London Square
Cross Lanes
Guildford
Surrey
GU1 1UN

DIRECTORS' REPORT

The directors present their report together with the audited financial statements for the year ended 31 December 2019.

Principal Activity

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

Results and dividends

The statement of comprehensive income is set out on page 7 and shows the results for the year. The company's profit for the year amounted to £119,699,075 (2018: £3,352,392). The significant increase in profit is a result of the fair value gain on investment properties. Details of the investment property gains are set out below and in note 7. The directors do not recommend the payment of a dividend for the current year and no dividend was paid in the prior year.

Business review and future developments

The directors are satisfied with the financial position of the Company at the year end.

The directors do not expect there to be significant future developments which could adversely impact the business however notice should be taken of the potential legislative changes disclosed in the critical accounting estimates and assumptions section of note 1.9.

Investment properties

The group's investment properties have been valued at £154,923,940 (2018: £14,700,000). The resultant fair value gain in the period amounted to £144,659,940 (2018: loss £802,420), substantially all of which arose as a result of the change from a valuation undertaken by external valuers in accordance with the Royal Institute of Chartered Surveyors (RICS) Valuation - Professional Standards UK 2015 the ("Red Book") to an external actuarial valuation which discounts cash flows over 150 years. Details of the investment properties are set out in note 7.

Public pledge for leaseholders

In June 2019 a number of residential real estate developers and freeholders, including the group, of which the company is now a member, signed a government-backed public pledge in relation to leaseholders. This pledge is a crucial step towards positive change in the residential leasehold market and reflects our commitment to promoting good practice. The company's appointed agent, Estates & Management Limited, a company related by virtue of common control and directors, also signed this pledge.

The pledge sets out a number of principles which will assist existing and future leaseholders in ensuring the leasehold system is as fair and transparent as possible. It also includes undertakings to work with other freeholders and stakeholders to develop a comprehensive Code of Practice which establishes the responsibilities of freeholders and enshrines the highest standards for the management and maintenance of properties.

Directors

The following directors have held office during the year:

P A Hallam (appointed 10th July 2019)
W K Procter
C C McGill
M D Watson (appointed 22nd February 2021)

Statement of directors' responsibilities

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

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

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

a. select suitable accounting policies and then apply them consistently;

b. make judgements and accounting estimates that are reasonable and prudent;

c. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Statement as to disclosure of information to auditor

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

Insurance of Officers

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

Auditor

The auditor, RSM UK Audit LLP, Chartered Accountants, has indicated its willingness to continue in office.

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

On behalf of the Board:

P.A. Hallam

P A Hallam
Director
24 / 3 / 2021

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FAIRTHATCH GR LIMITED

Opinion

We have audited the financial statements of Fairthatch GR Limited (the 'Company') for the year ended 31 December 2019 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – Valuation of investment properties

We draw attention to the disclosures made in the accounting policies on page 11 and in note 7 to the financial statements concerning the fair values of the Company's investment properties, which in the year ended 31 December 2019 were valued on an actuarial basis by a firm of independent actuaries. In the year ended 31 December 2018 the Company's investment properties (under the company's previous ownership structure) were valued based on valuations undertaken by approved external valuers in accordance with the Royal Institute of Chartered Surveyors (RICS) Valuation Professional Standards (2015) the ("Red Book"). The investment properties are included in the financial statements at 31 December 2019 at a value of £154.9m (2018: £14.7m). Substantially all of the £144.7m increase in fair value during the year can be attributed to the change in valuation basis. As indicated in the notes, considerable volatility is expected to exist in these valuations as detailed in note 7 where the impact of changes in the underlying assumptions are detailed. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FAIRTHATCH GR LIMITED (continued)

Other information
The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

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

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report or in preparing the directors' report.

Responsibilities of directors
As explained more fully in the directors' responsibilities statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FAIRTHATCH GR LIMITED (continued)

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

RSM UK Audit LLP

Colin Roberts FCA (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
Third Floor
One London Square
Cross Lanes
Guildford
Surrey
GU1 1UN

26/3/2021

FAIRTHATCH GR LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 £	2018 £
Turnover	2	4,244,609	6,350,147
Administrative expenses		(329,587)	(649,820)
Operating profit		3,915,022	5,700,327
Fair value gain/(loss) on investment property	7	144,659,940	(802,420)
Interest payable and similar expenses	3	(5,248,861)	(592,788)
Profit before taxation	4	143,326,101	4,305,119
Taxation	6	(23,627,026)	(952,727)
Profit for the financial year		119,699,075	3,352,392

FAIRTHATCH GR LIMITED

STATEMENT OF FINANCIAL POSITION (Company Registration Number: 08447905)

AT 31 DECEMBER 2019

	Notes	2019 £	2018 £
Fixed assets			
Investment properties	7	154,923,940	14,700,000
Current assets			
Debtors	8	238,109	6,837,556
Cash at and in hand		-	135,722
		238,109	6,973,278
Creditors: amounts falling due within one year	9	(5,091,535)	(2,646,394)
Net current (liabilities)/assets		(5,136,611)	4,326,884
Total assets less current liabilities		149,787,328	19,026,884
Creditors: amounts falling due in more than one year	10	(5,091,535)	(11,788,800)
Provisions for liabilities	11	(24,134,000)	(191,017)
Net assets		125,653,328	7,047,067
Capital and reserves			
Called up share capital	12	100	100
Capital contributions		-	1,779,901
Profit and loss account		125,653,228	5,267,066
Total equity		125,653,328	7,047,067

The financial statements on pages 7 to 21 were approved by the board of directors and authorised for issue on 24/3/ 2021 and are signed on its behalf by:

P.A. Hallam

P A Hallam
Director

FAIRTHATCH GR LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital £	Capital contribution £	Profit and loss account £	Total £
Balance at 1 January 2018	100	1,779,901	1,914,674	3,694,675
Profit and total comprehensive income for the year	-	-	3,352,392	3,352,392
Balance at 31 December 2018	100	1,779,901	5,267,066	7,047,067
Profit and total comprehensive income for the year	-	-	119,699,075	119,699,075
Unwinding of capital contribution	-	(1,092,814)	-	(1,092,814)
Reserve transfer	-	(687,087)	687,087	-
Balance at 31 December 2019	100	-	125,653,228	125,653,328

1. Accounting policies

Company information

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

1.1 Basis of accounting

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006, including the provisions of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, and under the historical cost convention as modified to include investment properties at fair value.

With effect from 1 January 2019 the company has adopted the amendments to FRS 102 published in the Triennial Review 2017. There are no adjustments to the current or comparative period in relation to this amendment.

1.2 Company reduced disclosures

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

- Section 4 'Statement of Financial Position' – Reconciliation of the opening and closing number of shares;
- Section 7 'Statement of Cash Flows' – Presentation of a Statement of Cash Flow and related notes and disclosures;
- Section 33 'Related Party Disclosures' – Compensation for key management personnel.

The financial statements of the Company are consolidated in the financial statements of Turing GR Limited. The consolidated financial statements of Turing GR Limited are available from Companies House, Crown Way, Cardiff, CF14 3UZ.

1.3 Going concern

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

The directors have taken into account the potential legislative changes disclosed in the critical accounting estimates and assumptions section of note 1.9 and believe that taking into account the group support mentioned below the company is expected to have adequate financial resources to continue as a going concern for a period of one year from the date of signing the financial statements. Following a refinancing transaction in the year by the group of which the company is a member, the company is now a party to a 61 year fully amortising facility. There are reserves in place to ensure that the necessary liquidity is retained in the structure so that funds are available to meet debt service liabilities as they fall due for the twelve months from which these financial statements are approved. During the year, there was an additional drawdown of £28.0m on the loan facility, which is amortised based on the original loan term of 61 years from 2019. The company's immediate parent company, Vega GR Limited, has confirmed that it will provide financial support where needed in the period of 12 months following the signing of the accounts to enable the company to pay its debts as they fall due.

1.3 Going concern (Continued)

For the reasons disclosed in the post balance sheet events note on page 21 the directors do not believe the COVID-19 pandemic will have an impact on the company's ability to continue as a going concern.

1.4 Functional and presentational currencies

The financial statements are presented in Sterling, which is also the functional currency of the Company.

1.5 Turnover

Turnover comprises rent receivable and other income arising from investment properties. Deed of variation fee income is recognised at the point that the underlying leases are varied.

Rental income is recognised in accordance with the terms of the lease. Inflationary uplifts to rental income are recognised when received. Non-inflationary uplifts are also recognised when received as the directors are of the opinion that to recognise the impact of those uplifts on a straight line basis over such long term leases (up to 999 years) would not give a true and fair view as the period between recognition and actual collection would be of sufficient length to cause uncertainty over the value to be collected.

Turnover is recognised at the fair value of the consideration received or receivable for rental income charged to external customers in the ordinary nature of the business. Turnover is shown net of value added tax.

1.6 Investment properties

The company's holding of investment properties is comprised of freehold reversionary interests and these are initially measured at cost and subsequently measured at fair value where a reliable measure of fair value is available. Changes in fair value are recognised in the statement of comprehensive income.

These assets represent interests held in the freehold land on which third party developers have built and sold long leasehold properties. As such these assets generate income in the form of annual ground rents along with other ancillary fixed income streams.

Recognising the nature of these investment properties and the lack of a regular market for significant portfolios of such assets, the directors are of the opinion that the best approximation to fair value for these properties is provided by a discounted cash flow valuation of the income streams generated by these assets.

In 2019 freehold reversionary interests have been valued based on an actuarial valuation carried out by a leading firm of third-party actuarial consultants. Any surplus identified over the cost of the asset is accounted for through the Statement of Comprehensive Income.

In 2018, under the company's previous ownership structure, the valuation of the entire portfolio was based on market value and was undertaken by approved external valuers in accordance with the Royal Institute of Chartered Surveyors (RICS) Valuation – Professional Standards (2015) the ("Red Book").

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

Further details are given in note 7.

1.7 Taxation

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

Current tax is based on taxable profit for the year. Current tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted by the reporting date.

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

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

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

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

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

1.8 Financial instruments

The Company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102, in full, to its financial instruments.

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument, and are offset only when the Company currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Financial assets

Debtors

Debtors which are receivable within one year and which do not constitute a financing transaction are initially measured at the transaction price. Debtors are subsequently measured at amortised cost, being the transaction price less any amounts settled and any impairment losses.

1.8 Financial instruments (continued)

Financial liabilities

Creditors

Creditors payable within one year that do not constitute a financing transaction are initially measured at the transaction price and subsequently measured at amortised cost, being the transaction price less any amounts settled.

Borrowings

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

Derecognition of financial assets and liabilities

A financial asset is derecognised only when the contractual rights to cash flows expire or are settled, or substantially all the risks and rewards of ownership are transferred to another party, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party. A financial liability (or part thereof) is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

1.9 Critical accounting estimates and areas of judgement

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

In preparing these financial statements, the directors have made estimates and assumptions concerning the future. The resulting accounting estimates and assumptions will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Valuation of investment properties

A key accounting estimate in preparing these financial statements relates to the fair value of the investment properties. Following a change in ownership of the company during the year, there has been a change in the valuation methodology applied. Previously a valuation was undertaken by external valuers in accordance with the Royal Institute of Chartered Surveyors (RICS) Valuation - Professional Standards UK 2015 the ("Red Book"). In the current year an external actuarial valuation which discounts cash flows over 150 years has been applied. However, the valuation of the group's investment properties is inherently subjective, as it is made on the basis of valuation assumptions which may in future prove not to be accurate, the risk of which is heightened due to the potential legislative changes noted below.

The Government, through the Ministry for Housing, Communities and Local Government (MHCLG) and the Law Commission, have undertaken a series of consultations on and reviews of the residential property market with a focus on the legal framework surrounding the freehold and leasehold classes of property interests. In January 2021, an announcement was released by the MHCLG on a number of proposed changes to the law governing leasehold enfranchisement. These proposals, which have not yet been enacted, include changes to the rights of leaseholders in relation to leasehold extensions and freehold purchases as well as changes to the manner in which ground rent would subsequently be determined. The implementation of legislative changes arising from these reforms could materially reduce the level of income generated by the portfolio of investment properties.

1.9 Critical accounting estimates and areas of judgement (continued)

Valuation of investment properties (continued)

The directors are of the view that the proposed changes would be very damaging to the residential property market and against the interests of consumers and other property owners. The directors have engaged actively in the consultations and with other stakeholders and interested parties in order to convey the company's opposition to the current proposals. Recent public announcements by government and in the Law Commission's report have recognised that any proposals to make wholesale reforms retrospectively pose real problems with respect to the contravention of human rights legislation. As such the directors' expectation of the impact of reforms will be greatest for future leases and not those already in existence, which will reduce the financial impact on freeholders.

The Competitions and Markets Authority (CMA) is reviewing potential breaches of consumer protection law in the leasehold market. This review is ongoing and covers developers and investment firms, including the company. The company is cooperating with the CMA. On 19 March 2021 the CMA issued consultation letters to two developers outlining the CMA's specific concerns about the terms that double ground rents every 10 or 15 years. The company is already working with leaseholders to vary such lease terms to RPI based review calculations. A significant number of such leases across the company have already been varied in this way.

An intrinsic element of the long-term forecasts is the continuing rental income and lease extension premiums generated by the property assets held by the company. The potential legislative changes raised above may affect these forecasts to the extent that the underlying assumption is no longer valid.

Similarly, the company's debt service requirements are primarily dependent upon this continuing rental income and these potential legislative changes, if introduced in their current form, could affect the company's ability to meet its obligations in the long term.

However, the financial consequences of any changes are too uncertain to enable the directors to reasonably estimate the impact of such changes on their forecasts. It is assumed that the current methodology continues to represent a fair value of these assets and that the ability to meet the long-term obligations is not compromised.

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

Current taxation

In arriving at the tax charge for the year the directors have been required to consider legislation introduced by HMRC in respect of Corporate Interest Restrictions and restrictions on the use of losses from the 1st April 2017.

These rules are complex and may have a material impact on the group's tax charge. The directors have assumed that no restriction arising from the corporate interest restriction will be applied within the Turing GR Limited group.

Furthermore, the directors have assumed that no group relief will be available to claim in this entity from parties external to the Turing GR Limited group. This assumption is based on estimates made by entities in the wider Euro Investments Overseas Incorporated group.

Whilst the directors believe their assumptions to be reasonable, the complex nature of the rules and their impact on the wider Euro Investments Overseas Incorporated group could mean the assumptions prove to be inaccurate.

1.9 Critical accounting estimates and areas of judgement (continued)

Deferred taxation

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

2. Turnover

An analysis of the Company's turnover by class of business is as follows:

	2019	2018
	£	£
Rent receivable	558,530	572,523
Other operating income	271,964	391,389
Deed of variation fee and legal fee income	3,414,115	5,386,235
	4,244,609	6,350,147

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

During the previous year the Company began the process of varying leases with "10-year doubling" rental uplift clauses to rental uplifts every 10 years calculated by reference to the RPI.

3. Interest payable and similar expenses

	2019	2018
	£	£
Interest payable on Group loans	248,256	404,525
Interest free loan deemed interest	-	188,263
Finance cost re-charged	605	-
Finance costs	5,000,000	-
	5,248,861	592,788

The finance costs represent a release fee from previous financing arrangements, payable to the previous lenders to the company.

4. Profit before taxation

	2019	2018
	£	£
The profit before taxation is stated after charging:		
- Auditor's remuneration	16,000	15,800

5. Employees and directors

There were no employees during the year other than the directors. The directors are remunerated by the related party Fairhold Services Limited and this is recharged to the Company as part of the management charge from Estates & Management Limited. This management charge, which in 2019 amounted to £245,996 (2018: £356,184) also includes a recharge of administration costs borne by Fairhold Services Limited on behalf of the Company and it is not possible to identify separately the amount relating to the directors' remuneration.

6. Taxation

	2019 £	2018 £
Current tax		
UK corporation tax	-	1,006,202
Prior year over provision	(315,957)	(50)
Total current tax	(315,957)	1,006,152
Deferred tax:		
Movement on potential chargeable gain liability	23,942,983	(135,691)
Prior year adjustment of timing differences	-	82,266
Total deferred tax	23,942,983	(53,266)
Total tax on profit	23,627,026	952,727

Factors affecting the tax charge for the year.

The tax assessed for the year is lower than the effective rate of corporation tax in the UK 19% (2018: 19%). The differences are explained below:

	2019 £	2018 £
Profit before tax	143,326,101	4,305,119
Profit multiplied by the standard rate of corporation tax in the UK of 19% (2018: 19%).	27,231,959	817,973
Effects of:		
Group relief received without charge	(112,056)	-
Effect of movement in value of investment properties	(27,485,389)	-
Tax losses carried forward	514,007	-
Adjustments for prior periods	(315,957)	-
Movements in deferred tax on investment properties	23,942,983	-
Other timing	(148,521)	134,754
Tax expense	23,627,026	952,727

The Company has estimated non-trading losses of £2,705,299 (2018: £Nil) available to carry forward against future profits. No deferred tax asset has been recognised in respect of these losses due to uncertainty of recovery.

7. Investment properties

	Freehold reversionary interests	
	2019	2018
	£	£
Fair Value		
As at 1 January	14,700,000	15,502,420
Fair value gain/(loss)	144,659,940	(802,420)
Disposals	(4,436,000)	-
As at 31 December	154,923,940	14,700,000

The investment properties represent a portfolio of freehold reversionary interests that generate ground rents as the principal income stream.

At 31 December 2019 the investment properties are valued at £154,923,940 (2018: £14,700,000).

In 2019, the investment properties have been valued using an actuarial valuation performed by a leading firm of financial and actuarial consultants as at 31 December 2019.

The basis of the independent valuation performed on an actuarial basis was to project risk adjusted income streams generated by the portfolio over 150 years discounted by a risk-free rate of return.

The principal assumptions used in the independent actuarial valuation were:

RPI basis for inflation assumptions	-	implied inflation vector taken from the Bank of England website;
Residential property inflation	-	derived from market rental yields as found in the ARLA report and the UK Government gilt curve;
Risk free discount rate	-	a series of rates reflecting the UK government gilt curve as applicable to each cashflow date;
Incidence rates for lease extensions and the price charged	-	historic rates and FTT valuation;
Taxation	-	no allowance has been made for taxation in projecting the future revenue flow;
Lease with "10-year doubling" rental uplift clauses	-	all such leases have been rebased to uplift clauses linked to the RPI. Expected deed of variation fee receipts will offset reduced rental income.

7. Investment properties (continued)

The input with the most significant impact on the valuation is the discount rate used. Per the 31 December 2019 actuarial valuations, a 50-basis point increase or decrease in this rate reduces or increases the valuation by 28% and 48% respectively.

During the year deed of variation fees have been received of £3,414,115 (2018: £5,386,235), as shown in note 2, for varying certain leases with the "10-year doubling" rental uplift clauses to rental uplifts every 10 years calculated by reference to the RPI. As these amounts included within turnover have now been realised, the future expected income streams which form the basis of the investment property valuation have reduced by these amounts.

At 31 December 2018 The John Lewis Partnership Pension Trust engaged CBRE Limited to carry out independent valuations of the property interests. The valuations were carried out on an open market basis and in accordance with the Royal Institute of Chartered Surveyors (RICS) Valuation – Professional Standards (2015) the ("Red Book") and determined the value at December 2018 as £14,700,000. The valuation approximates the amount that would be expected to appear in a hypothetical contract of sale at the valuation date. No adjustments were made for any expenses or realisation.

If investment properties were stated on a historical cost basis rather than a fair value basis, the amounts would have been included as follows:

	Freehold reversionary interests	
	2019	2018
	£	£
Historic cost	12,269,486	12,911,882

The Company's investment property is subject to a debenture and charge in connection with a guarantee provided to the Company in respect of the indebtedness of the holding company and other related parties (see note 13).

Given the very long term nature of the new financing structure entered into during the year, the directors consider the previous valuation basis to no longer be appropriate. The change in valuation methodology has given rise to substantially all of the movement in fair value in the year.

8. Debtors

	2019	2018
	£	£
Trade debtors	15,963	37,360
Other debtors	100	1,537,711
Prepayments and accrued income	195,894	5,262,485
Corporation tax recoverable	26,152	-
	238,109	6,837,556

9. Creditors: amounts falling due within one year

	2019	2018
	£	£
Trade Creditors	-	268,237
Accruals and deferred income	283,186	1,300,910
Other taxation and social security costs	-	1,077,247
Amounts owed to parent undertaking	5,091,535	-
	5,374,721	2,646,394

There are no fixed terms of repayment of the parent company loan. There is no interest to be paid on this loan. Despite the loan being repayable on demand it is not the intention for the loans to be repaid within one year.

10. Creditors: amounts falling due in more than one year

	2019	2018
	£	£
Amount owed to parent undertaking	-	11,788,800

11. Provision for liabilities

	Deferred taxation £
1 January 2019	191,017
Increase in provision in the year	23,942,983
31 December 2019	24,134,000

Provision for deferred tax liabilities recognised by the Company is as follows:

	2019 £	2018 £
Deferred tax arising on assets measured at fair value	24,134,000	191,017

12. Share capital and reserves

Share capital

	2019 £	2018 £
Allotted, issued and fully paid:		
100 Ordinary shares of £1	100	100

Ordinary share rights
The Company's ordinary shares, which carry no right to fixed income, each carry the right to one vote at general meetings of the Company. In the event of a wind up the shareholders receive dividends and distribution pro rata to the number of shares held.

Reserves

Reserves of the Company represent the following:

Profit and loss account
Cumulative profit and loss net of distributions to owners.

13. Guarantees

The Company has given an unlimited guarantee in respect of some of the indebtedness of its holding company Vega GR Limited. The guarantee is supported by a debenture and a charge over the Group's property holdings including the Company's investment properties. At 31 December 2019 the total amount outstanding including accrued interest payable subject to that guarantee was £213.8m (2018: £Nil). This includes interest payable outstanding at 31 December 2019 totalling £4.8m (2018: £Nil).

The company is included in a group registration for VAT purposes and is therefore jointly and severally liable for all other participating group undertakings' unpaid debts in this connection.

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

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

The directors regard the ultimate holding company to be Euro Investments Overseas Incorporated, a company incorporated in the British Virgin Islands.

The ultimate controlling party is the Tchenguiz Family Trust.

Prior to the acquisition of the company by Vega GR Limited on 12 August 2019, the company was owned by Audpen GR Limited, a company in the wider Euro investments Overseas Incorporated group. The ultimate controlling party was the John Lewis Partnership Pension Trust (an unlimited company) acting as Trustee of the John Lewis Partnership Trust for Pension.

15. Related party transactions

The Company has taken advantage of the exemptions provided by Section 33 of FRS 102 'Related Party Disclosures' and has not disclosed transactions entered into between two or more members of a group, provided that any subsidiary undertaking which is party to the transaction is wholly owned by a member of that group.

Management fees of £245,996 (2018: £356,184) were charged to the Company in the year by companies related by virtue of common control and common directors.

Included in these management charges are legal-fees of £102,200 (2018: £252,700) which were charged to the company in relation to the work performed on the lease variations that the Company has undertaken, by a company related by virtue of a common director.

Investment property totalling £4,436,000 (2018: £Nil) was sold to companies related by virtue of common control and common directors.

16. Post balance sheet events

In March 2020, the COVID-19 pandemic broke in the UK. This event has not impacted on the company's performance for the year ended 31 December 2019 or its financial position at 31 December 2019.

The current situation is unprecedented and the wider economic impact is uncertain. However, the directors are of the view that because of the very long-term nature of the company's financing structures and the nature of its core income, being a large number of small ground rent receipts, the impact on the company is likely to be minimal.