

SALISBURY SQUARE LLP

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016



Registered number: OC 392537

SALISBURY SQUARE LLP

DESIGNATED MEMBERS' REPORT

The designated members submit their report and the financial statements of Salisbury Square LLP and its subsidiaries (the "Group") for the year ended 31 December 2016.

Principal activities

The principal activity of the limited liability partnership is that of its investment, via its subsidiaries, in Salisbury Square House, 8 Salisbury Square, London, EC4.

Designated members

The following designated members have held office since incorporation.

Cheyne Real Estate Credit Holdings Fund, LP
Cheyne Real Estate Credit Holdings Fund II LP
Cheyne Real Estate Credit Holdings Fund III LP
Greycoat SS Capital LLP

Policy with respect to designated members' drawings and subscription and repayment of members' capital

Designated members' drawings, subscriptions and repayment of capital are set out in the Limited Liability Partnership Agreement dated 16 April 2014. Further details are disclosed in note 11 to the financial statements.

Auditor

RSM UK Audit LLP has indicated its willingness to continue in office.



Designated Member
29 June 2017

PAUL JOHNSTON DIRECTOR

SALISBURY SQUARE LLP

STATEMENT OF MEMBERS' RESPONSIBILITIES

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

Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 ("the 2008 Regulations") requires the members to prepare financial statements for each financial year. Under that law the members have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under the 2008 Regulations law the members 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 Group and the Limited Liability Partnership and of the profit or loss of the Group for that period. In preparing those financial statements, the members 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 Group and the Limited Liability Partnership will continue in business.

Under the 2008 Regulations the members are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Limited Liability Partnership's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Limited Liability Partnership and enable them to ensure that the financial statements comply with those Regulations. They are also responsible for safeguarding the assets of the Group and the Limited Liability Partnership and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

These responsibilities are exercised by the designated members on behalf of the members.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SALISBURY SQUARE LLP

Opinion on financial statements

We have audited the Group and Parent Limited Liability Partnership's financial statements on pages 4 to 13. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including FRS 102 "the Financial Reporting Standard applicable in the UK and Republic of Ireland."

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and Parent Limited Liability Partnership's affairs as at 31 December 2016 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeprivate.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 as applied to limited liability partnerships requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent limited liability partnership's financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit; or
- the members were not entitled to prepare the financial statements in accordance with the small limited liability partnerships' regime.

Respective responsibilities of members and auditor

As more fully explained in the Members' Responsibilities Statement set out on page 2, the members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

This report is made solely to the Limited Liability Partnership's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008. Our audit work has been undertaken so that we might state to the Limited Liability Partnership'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 Limited Liability Partnership and the Limited Liability Partnership's members as a body, for our audit work, for this report, or for the opinions we have formed.

RSM UK Audit LLP

RICHARD COATES (Senior Statutory Auditor)

For and on behalf of RSM UK AUDIT LLP, Statutory Auditor

Chartered Accountants

25 Farringdon Street

London

EC4A 4AB

29 June 2017

SALISBURY SQUARE LLP

**CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Notes	2016 £	2015 £
Turnover			
Rental income	1	238,259	1,374,702
Property outgoings		(434,031)	(428,272)
Gross (loss)/profit		<u>(195,772)</u>	<u>946,430</u>
Administrative expenses		(95,551)	(98,769)
Operating (loss)/profit		<u>(291,323)</u>	<u>847,661</u>
Fair value gains on investment property	6	30,587,999	-
Interest receivable		691	4,481
Interest payable and similar charges	4	(3,029,939)	(2,586,100)
Profit/(loss) for the financial period before members' remuneration and profit share		<u>27,267,428</u>	<u>(1,733,958)</u>
Interest payable on members' loans	5	(3,735,161)	(2,595,708)
Profit/(loss) for the financial period available for discretionary division among members		<u>23,532,267</u>	<u>(4,329,666)</u>

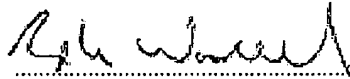
SALISBURY SQUARE LLP

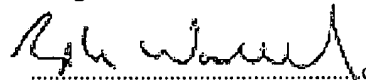
CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2016

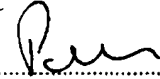
	Notes	2016 £	2015 £
Fixed assets			
Investment property	6	130,000,000	77,182,206
Current assets			
Debtors	8	3,478,883	188,568
Cash at bank and in hand		1,412,472	68,285
		4,891,355	256,853
Creditors: amounts falling due within one year	9	(1,516,027)	(2,160,297)
Net current assets/(liabilities)		3,375,328	(1,903,444)
Total assets less current liabilities		133,375,328	75,278,762
Creditors: amounts falling due after more than one year	10	(42,345,904)	(42,076,766)
Net assets attributable to members		91,029,424	33,201,996
Represented by:			
Loans and other debts due to members			
Loans and Other Debts		72,096,253	37,801,092
Members' Other interests			
Members' Capital		100	100
Other Reserves		18,933,071	(4,599,196)
Total members' interests		91,029,424	33,201,996

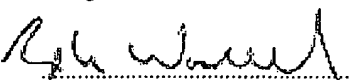
These financial statements have been prepared in accordance with the special provisions of the Companies Act 2006 (as applied by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008) applicable to limited liability partnerships subject to the small limited liability partnerships regime.

These financial statements on pages 4 to 13 were approved by the members and authorised for issue on 29 June 2017 and signed on their behalf by:


on behalf of
 Cheyne Real Estate Credit Holdings Fund, LP
 Designated Member


on behalf of
 Cheyne Real Estate Credit Holdings Fund II, LP
 Designated Member


on behalf of
 Greycoat SS Capital LLP
 Designated Member


on behalf of
 Cheyne Real Estate Credit Holdings Fund III, LP
 Designated Member

SALISBURY SQUARE LLP

Registered number: OC 392537

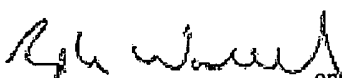
PARTNERSHIP BALANCE SHEET AS AT 31 DECEMBER 2016


	Notes	2016 £	2015 £
Fixed assets			
Investments in subsidiaries	7	72,096,355	37,801,192
Current assets			
Debtors	8	613,610	-
Creditors: amounts falling due within one year	9	(670,069)	(36,417)
Net current liabilities		(56,459)	(36,417)
Net assets attributable to members		72,039,896	37,764,775
Represented by:			
Loans and other debts due to members			
Loans and Other Debts		72,096,253	37,801,092
Members' Other interests			
Members' Capital		100	100
Other Reserves		(56,457)	(36,417)
Total members' interests		72,039,896	37,764,775

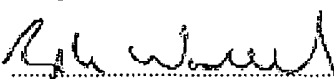
The Partnership has taken advantage of the exemptions from presenting its own profit and loss account under section 408 of the Companies Act 2006. The Partnership loss for the year was £20,040 (2015: profit £203,879).

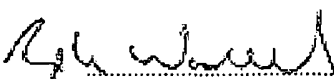
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.....on behalf of
Cheyne Real Estate Credit Holdings Fund, LP
Designated Member


.....on behalf of
Greycoat SS Capital LLP
Designated Member


.....on behalf of
Cheyne Real Estate Credit Holdings Fund II, LP
Designated Member


.....on behalf of
Cheyne Real Estate Credit Holdings Fund III, LP
Designated Member

SALISBURY SQUARE LLP

RECONCILIATION OF MEMBERS INTERESTS

FOR THE YEAR ENDED 31 DECEMBER 2016

Group

	Members' capital £	Other reserves £	Total equity £	Loans and other debts due to members £	Total members' interests £
At 1 January 2015	100	(269,530)	(269,430)	70,885,455	70,616,025
Repayment of Mezzanine loan	-	-	-	(42,500,000)	(42,500,000)
Mezzanine loans	-	-	-	8,258,748	8,258,748
Members' loans	-	-	-	1,156,889	1,156,889
Loss for the year	-	(4,329,666)	(4,329,666)	-	(4,329,666)
At 31 December 2015	100	(4,599,196)	(4,599,096)	37,801,092	33,201,996
Mezzanine loans	-	-	-	28,183,161	28,183,161
Members' loans	-	-	-	6,112,000	6,112,000
Profit for the year	-	23,532,267	23,532,267	-	23,532,267
At 31 December 2016	100	18,933,071	18,933,171	72,096,253	91,029,424

Partnership

	Members' capital £	Other reserves £	Total equity £	Loans and other debts due to members £	Total members' interests £
At 1 January 2015	100	(240,296)	(240,196)	70,885,455	70,645,259
Repayment of Mezzanine loan	-	-	-	(42,500,000)	(42,500,000)
Mezzanine loan	-	-	-	8,258,748	8,258,748
Members' loans	-	-	-	1,156,889	1,156,889
Profit for the year	-	203,879	203,879	-	203,879
At 31 December 2015	100	(36,417)	(36,317)	37,801,092	37,764,775
Mezzanine loan	-	-	-	28,183,161	28,183,161
Members' loan	-	-	-	6,112,000	6,112,000
Loss for the year	-	(20,040)	(20,040)	-	(20,040)
At 31 December 2016	100	(56,457)	(56,357)	72,096,253	72,039,896

SALISBURY SQUARE LLP

ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 DECEMBER 2016

General Information

Salisbury Square LLP ("the Partnership") was established and registered in England on 7 April 2014 as a limited liability partnership. The registered office of Salisbury Square LLP is 11 Charles II Street, London, SW1Y 4QU. The principal activity of the Partnership and its subsidiaries (together "the Group") is investment and development of property.

Basis of Accounting

The 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 Statement of Recommended Practice "Accounting by Limited Liability Partnerships" published January 2017 ("SORP"), the requirements of the Companies Act 2006 as applicable to limited liability partnerships subject to the small limited liability partnerships regime and under the historical cost convention, modified to include investment properties and certain financial instruments at fair value. The disclosure requirements of section 1A of FRS 102 have been applied other than where additional disclosure is required to show a true and fair view.

The financial statements are prepared in sterling, which is the functional currency of the Partnership. Monetary amounts in these financial statements are rounded to the nearest £.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Partnership and its subsidiary undertakings for the year.

Going Concern

The Group's main asset is its investment property, Salisbury Square House, which is held in a subsidiary undertaking, Salisbury Square Unit Trust. The acquisition of the property was financed by members' loans and was partly refinanced following the year end with a bank loan investment facility which includes both a loan to value covenant and an interest cover covenant and has a term to 2019.

The members have, after careful consideration of the matters set out above and the Group's and the Partnership's projected cash flows for the period to 30 June 2018, concluded that they expect the Group and the Partnership will be able to pay its liabilities as they fall due for this period. Consequently they have concluded that it is appropriate to adopt the going concern basis for the preparation of these financial statements.

Investment Properties

Investment properties are initially measured at cost and subsequently measured at fair value. Changes in fair value are recognised in profit and loss.

Investments in Subsidiaries

Investments in subsidiaries are stated at cost less provision for any impairment in value.

Recognition of Income

Turnover comprises rental income for the period, net of VAT.

Finance Costs

The costs relating to the obtaining of loan finance are capitalised and subsequently amortised through profit and loss at a constant yearly rate. The loan is included in the balance sheet at the amount received from the lender less unamortised costs and any repayments.

SALISBURY SQUARE LLP

ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 DECEMBER 2016

Deferred Taxation

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation in periods different from those in which they are included in the accounts. Deferred tax is not provided on timing differences arising from the revaluation of tangible fixed assets where there is no commitment to sell the asset. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Operating Leases

Rentals applicable to operating leases where substantially all the benefits and risks of ownership remain with the lessor are charged to profit and loss on a straight line basis over the lease term. Rent free periods or other incentives received for entering into a lease are accounted for over the period of the lease to the first rent review.

Financial instruments

Financial assets and financial liabilities are recognised when the Partnership becomes a party to the contractual provisions of the instrument, and are offset only when the Partnership 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.

The Partnership has applied the provisions of Section 11 'Basic Financial Instruments' of FRS 102 to all of its financial instruments with the exception of the interest rate swap, which is stated at fair value.

The Partnership's financial assets are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method. Except for the interest rate swap, the Partnership's financial liabilities are initially measured at transaction price and are subsequently carried at amortised cost.

Critical accounting estimates and judgements in applying accounting policies

Estimates and judgements are continually evaluated and are based on experience and other factors, including expectations of future events that are believed to be reasonable under circumstances. The following critical accounting judgements have been made in the preparation of these financial statements:

Interest rate swap:

The Unit Trust entered into an interest rate swap with Deutsche Bank AG, London Branch. The fair value of the swap is obtained from the swap counterparty and the Members are of the opinion that this is the best available estimate of the fair value of the interest rate swap at 31 December 2016.

Valuation of investment property:

The investment property is stated at fair value as explained in note 6.

SALISBURY SQUARE LLP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

1 Turnover

The group's turnover is derived from its principal activity. All turnover is derived from the United Kingdom based property.

2 Auditor's remuneration

Auditor's remuneration for the audit of Group's financial statements was £16,250 (2015: £17,500).

3 Employee numbers

There were no employees during the year ended 31 December 2016 or the year ended 31 December 2015.

4 Interest payable and similar charges

	2016	2015
	£	£
Bank loan interest payable	2,156,992	1,952,496
Loan arrangement fees	269,142	250,388
Other financing costs	-	31,277
Fair value loss on derivative financial instruments	603,805	351,939
	<u>3,029,939</u>	<u>2,586,100</u>

5 Interest payable on members' loans

	2016	2015
	£	£
Interest on members' mezzanine loans	<u>3,735,161</u>	<u>2,595,708</u>

SALISBURY SQUARE LLP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

6 Investment Property

	2016 £	2015 £
Freehold investment property at valuation Salisbury Square House, 8 Salisbury Square, London, EC4		
Cost	66,000,000	66,000,000
Capitalised costs	33,412,001	11,182,206
Fair value gain	30,587,999	-
Market Value	130,000,000	77,182,206

Investment property comprises freehold office buildings. The fair value of the investment property at 31 December 2016 has been arrived at on the basis of an external valuation report addressed to the Joint Trustees of Salisbury Square Unit Trust, the entity in which the property is held. This report was prepared for internal accounting purposes as at 31 January 2017. The valuation was based on recent market transactions on an arm's length basis for similar properties. It is of the Members' opinion that this valuation is a fair reflection of the market value of the property at 31 December 2016.

At the year end the Unit Trust had a Capital Commitment of £21,772,597 (2015: £2,835,000) in respect of works being carried out on Salisbury Square House.

7 Investment in Subsidiaries

Partnership	Shares in subsidiaries £	Loans to subsidiaries £	Total Investment in group Undertakings £
Cost			
As at 1 January 2016	2	37,801,190	37,801,192
Additions in the year	-	34,295,163	34,295,163
At 31 December 2016	2	72,096,353	72,096,355

As at 31 December 2016, the Partnership held an interest in the following entities which have been consolidated in these financial statements.

	Directly held	Indirectly held	Nature of Business
Limited Liability Companies			
Salisbury Unitholder 1 Limited	100%		Investment holding
Salisbury Unitholder 2 Limited	100%		Investment holding
Unit Trust			
Salisbury Square Unit Trust		100%	Property investment

SALISBURY SQUARE LLP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

8 Debtors

	Group 2016 £	Partnership 2016 £	Group 2015 £	Partnership 2015 £
Due within one year:				
Trade debtors	116,555	-	-	-
Other debtors	3,362,328	-	188,568	-
Amounts due from subsidiary undertakings	-	613,610	-	-
	<u>3,478,883</u>	<u>613,610</u>	<u>188,568</u>	<u>-</u>

9 Creditors: Amounts falling due within one year

	Group 2016 £	Partnership 2016 £	Group 2015 £	Partnership 2015 £
Trade creditors	-	-	1,360,815	-
Derivative financial instrument	955,744	-	351,939	-
Amounts due to subsidiary undertakings	-	670,069	-	36,417
Accruals and deferred income	560,283	-	447,543	-
	<u>1,516,027</u>	<u>670,069</u>	<u>2,160,297</u>	<u>36,417</u>

Salisbury Square Unit Trust entered into an interest rate swap with a notional amount of £42,900,000 on 10 February 2015 with Deutsche Bank AG, London Branch whereby the Unit Trust pays a fixed quarterly payment in return for a floating quarterly receipt. The swap was entered into to hedge the interest rate risk of the floating rate loans and matures on 10 February 2019. The estimated fair value of the interest rate swap at 31 December 2016 is £955,744 (2015: £351,939) liability position.

SALISBURY SQUARE LLP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

10 Creditors: Amounts falling due after more than one year

	Group 2016 £	Partnership 2016 £	Group 2015 £	Partnership 2015 £
Bank loan	42,900,000	-	42,900,000	-
Unamortised loan transaction costs	(554,096)	-	(823,224)	-
	<u>42,345,904</u>	<u>-</u>	<u>42,076,766</u>	<u>-</u>

On 10 February 2015 the Joint Trustees of Salisbury Square Unit Trust entered into a facility agreement on their behalf with Deutsche Bank AG, London Branch as lender under which the lender would make available a loan facility of up to £47,400,000, bearing interest on the drawdown amount at 3 month LIBOR plus a margin of 3.6% per annum. The facility consists of a sterling term loan facility in an aggregate amount of £42,900,000 ("Facility A") and a sterling term loan facility in an aggregate amount of £4,500,000 ("Facility B").

11 Members' interests

The members' capital and loans are subordinated to the Mezzanine loan. The Mezzanine loan is repayable in accordance with the Partnership Agreement. The Mezzanine loan holder is entitled to interest at a rate of 11.25% per annum.

In accordance with UK GAAP, the Mezzanine and Members' loans are all classified as debt and consequently the interest accruing on the Mezzanine loan and any priority return on the Members' loans are accounted for as an accrued interest expense in the income statement (see note 5).

Loans and other debts due to members rank pari passu with unsecured creditors in the event of a winding up.

In accordance with UK GAAP, the members' capital accounts are classified as equity and apportioned between the four members being Cheyne Real Estate Credit Holdings Fund LP (£50), Cheyne Real Estate Credit Holdings Fund II LP, (£17), Cheyne Real Estate Credit Holdings Funds III LP (£7) and Greycoat SS Capital LLP (£26).

12 Transactions with Related Parties

During the year, the Group accrued management fees of £434,030 (2015: £372,002) payable to Greycoat SS AM LLP, a fellow subsidiary with Greycoat SS Capital LLP of Greycoat Real Estate LLP. Greycoat SS Capital LLP is a designated member of the Partnership. There were no amounts outstanding in respect of this accrual at the date of these financial statements.

13 Controlling party

There is no controlling party of the Partnership.