Company No: 3460392

DEVON CHALETS LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

THURSDAY
L1ICON5N
L14 27/09/2012 #200
COMPANIES HOUSE

DIRECTORS AND OFFICERS

DIRECTORS

W K Procter
C C McGill

SECRETARIES

P A Hallam
I Rapley

REGISTERED OFFICE

Molteno House
302 Regents Park Road
London N3 2JX

AUDITOR

Baker Tilly UK Audit LLP
Chartered Accountants
The Clock House
140 London Road
Guildford
Surrey
GU1 1UW

DIRECTORS' REPORT

The directors submit their report and the financial statements for the year ended 31 December 2011

Principal activities

The principal activity of the company during the year was that of property investment

Review of the business and future developments

The directors are satisfied with the financial position of the company at the year end subject to the matters discussed in the accounting policies on page 7 which may have an impact on the company's ability to continue as a going concern

Results and dividends

The loss for the year amounted to £8,901 (2010 £15,543) The directors do not recommend the payment of a dividend

Investment properties

The investment properties have been valued on an actuarial basis at £11,500,000 The resultant valuation deficit amounted to £Nil (2010 £800,000)

Directors

The directors who have held office since 1 January 2011 were

W K Procter	
C C McGill	(appointed 29 March 2011)
I Rapley	(resigned 17 March 2011)

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

DIRECTORS' REPORT (Continued)

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

Auditor

The auditor, Baker Tilly 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

By order of the Board

C C McGill
Director
20/9/ 2012

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DEVON CHALETS LIMITED

We have audited the financial statements on pages 5 to 13 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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

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

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the APB's website at www frc org uk/apb/scope/private cfm

Opinion on financial statements
In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its result for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Emphasis of matter – Going concern
In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in the accounting policies on page 7 of the financial statements which set out some possible events which could result from the company's United Kingdom group's borrowings from its principal lender not being refinanced, which may have an impact on the company's ability to continue as a going concern

These events indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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

Baker Tilly UK Audit LLP

David Worrow FCA (Senior Statutory Auditor)

For and on behalf of BAKER TILLY UK AUDIT LLP, Statutory Auditor
Chartered Accountants
The Clock House
140 London Road
Guildford
Surrey GU1 1UW

21/9/ 2012

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 £	2010 £
Turnover	1	**179,387**	179,461
Administrative expenses		**(148,004)**	(160,299)
Operating profit		**31,383**	19,162
Interest payable and similar charges	2	**(40,284)**	(34,705)
Loss on ordinary activities before taxation	3	**(8,901)**	(15,543)
Tax on loss on ordinary activities	5	-	-
Loss on ordinary activities after taxation	12	**£ (8,901)**	£ (15,543)

The operating profit for the year arises from the company's continuing operations

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 2011	Note	2011 £	2010 £
Loss for the financial year		**(8,901)**	(15,543)
Unrealised deficit on valuation of properties	6	-	(800,000)
Total recognised gains and losses for the year		**£ (8,901)**	£ (815,543)

BALANCE SHEET (Company Registration Number: 3460392)

AT 31 DECEMBER 2011

	Note	2011 £	2010 £
Fixed assets			
Tangible assets	6	**11,506,834**	11,512,990
Current assets			
Debtors	7	**91,008**	79,611
Cash at bank and in hand		**200**	200
		91,208	79,811
Creditors: amounts falling due within one year	8	**(40,166)**	(38,734)
Net current assets		**51,042**	41,077
Total assets less current liabilities		**11,557,876**	11,554,067
Creditors: amounts falling due after more than one year	9	**(1,435,240)**	(1,422,530)
Net assets		**£ 10,122,636**	£ 10,131,537
Capital and reserves			
Called up share capital	11	**200**	200
Revaluation reserve	12	**10,711,335**	10,711,335
Profit and loss account	12	**(588,899)**	(579,998)
Shareholders' funds	12	**£ 10,122,636**	£ 10,131,537

The financial statements on pages 5 to 13 were approved by the board of directors and authorised for issue on 20/9/ 2012 and are signed on its behalf by

C C McGill
Director

ACCOUNTING POLICIES

The following accounting policies have been used consistently in dealing with items which are considered material in relation to the financial statements

Basis of accounting

The accounts have been prepared under the historical cost convention as modified by the revaluation of investment properties and in accordance with applicable accounting standards

Going concern

The company is party to a group cross collateralised funding structure The directors have assessed the operation of the structure and have determined that the company has, or can expect to have, subject to the further matters set out hereafter, sufficient working capital for its needs for at least 12 months from the date of approval of these financial statements In view of this the directors consider it appropriate for the financial statements to be prepared on a going concern basis

The group's cross collateralised bank loan is due for repayment in January 2013 Should it be required the group intends to negotiate a facility extension to allow a reasonable time for a refinancing to take place The bank loan facility is a syndicated loan principally funded by way of bonds issued under a CMBS financing structure The bonds issued by the CMBS conduit do not fall due for repayment until April 2018 and the terms of the bond issue provide for an extension of the bank loan if this will facilitate repayment of the bonds by their due date Accordingly the directors' opinion is that the group's principal lender will consent to the extension of the bank loan facility.

The financial statements have been prepared on the going concern basis which assumes that the group's principal lender will not withdraw its loan facilities to the group and that a facility extension will be agreed as necessary to enable new financing facilities to be put in place The principal direct and indirect effects of the withdrawal by the lender of the group's borrowings are that

i the cross collateralised borrowings, as set out in note 13, totalling £106,740,262 (2010 £107,797,985) at the year end, become immediately repayable and further costs could arise in respect of the interest rate arrangements that fix the interest rates on those loans, the level of which would depend on the market rates of interest prevailing at the time of such a termination,

ii if not repaid when due, the senior lender to the company's United Kingdom holding company could exercise its share pledges over that holding company and its group companies and take control or could exercise its security direct over the company's investment properties The senior lender may seek to sell the holding company, individual companies or dispose of assets separately or together and at a time of its own choosing This process may not represent an orderly realisation in the normal course of business so the company's investment properties would, probably, only be realised at values significantly less than their carrying values in these financial statements, and

iii if a realisation of the company's investment properties is carried out then a tax liability would arise on any sale of the properties at values in excess of cost No provision is made in the financial statements for any such tax liability A disposal based on the carrying value of the properties as at the year end would have resulted in a tax liability crystallising, estimated at £2,585,000 (2010 £2,810,000), as referred to in note 10

ACCOUNTING POLICIES (Continued)

Investment properties

The company's holdings of Freehold Reversionary Interests are classified as Investment Property and accounted for in accordance with Statement of Standard Accounting Practice 19 (SSAP 19) ' Accounting for Investment properties'

These assets, as their name implies, represent interests held in the freehold land on which other third party developers have built and sold long leasehold properties As such these assets are more akin to financial investments, as they generate income in the form of annual ground rents and other ancillary income streams

Recognising the unusual nature of these investment properties and the lack of a regular market for such significant portfolios of such assets, which are in distinct contrast with the more regular "bricks and mortar" investment properties commonly accounted for under SSAP 19, the directors are of the opinion that the best approximation to an open market value for these properties as required under SSAP 19, is provided by an actuarial valuation of the income streams generated by these assets

Periodically actuarial valuations of the entire Freehold Reversionary Interest portfolio are undertaken by independent actuaries These valuations are reviewed by the directors at each year end and adjusted by them for any identified significant movements in the valuation drivers Any surplus identified over the cost of the assets is accounted for as an unrealised gain and taken to the revaluation reserve, any deficits are applied firstly to any previously identified surpluses and any residual amount written off to the profit and loss account

No depreciation or amortisation is provided in respect of investment properties

This treatment, as regards the company's investment properties, is a departure from the requirements of the Companies Act concerning depreciation of fixed assets However, these properties are not held for consumption but for investment and the directors consider that systematic annual depreciation would be inappropriate The accounting policy adopted is therefore necessary for the accounts to give a true and fair view Depreciation or amortisation is only one of the many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified

Tangible fixed assets

Depreciation is provided on all tangible fixed assets other than freehold land and investment properties at rates calculated to write each asset down to its estimated residual value evenly over its expected useful life, as follows

Equipment	25% straight line

Turnover

Turnover comprises rent receivable and other operating income arising from investment properties

Rent receivable

Rental income is recognised in accordance with the terms of the lease

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 that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date Timing differences are differences between the company's taxable profits and its results as stated in the financial statements

No provision is made for deferred tax on unrealised gains recognised on revaluing property to its market value

Deferred taxation (Continued)

Deferred tax is measured at the tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date An asset is not recognised to the extent that the transfer of economic benefits in future is uncertain Deferred tax is measured on a non-discounted basis

Cash flow statement

The company has taken advantage of the small company exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

1 **Turnover**

	2011	2010
	£	£
Rent receivable	**170,727**	167,713
Other income	**8,660**	11,748
	£ **179,387**	£ 179,461

2 **Interest payable and similar charges**

	2011	2010
	£	£
Interest on parent company loan	**27,243**	21,664
Parent company finance charges	**13,041**	13,041
	£ **40,284**	£ 34,705

3 **Loss on ordinary activities before taxation**

	2011	2010
	£	£
The loss on ordinary activities before taxation is stated after charging		
Depreciation of tangible assets		
Charge for the year on owned assets	**6,156**	2,921
Auditor's remuneration	**4,000**	3,500

4 **Employees and directors**

Other than the directors who received no remuneration, no persons were employed during the year (2010 Nil)

5 **Taxation**

	2011	2010
	£	£
Current tax		
UK corporation tax on losses of the year	**-**	-
Total current tax	£ **-**	£ -
Factors affecting tax charge for the year		
Loss on ordinary activities before tax	£ **(8,901)**	£ (15,543)
Loss on ordinary activities multiplied by the standard rate of Corporation tax in the UK of 26% (2010 28%)	**(2,314)**	(4,352)
Effects of		
Non-deductible expenses	**-**	42
Tax losses carried forward	**1,136**	4,061
Depreciation in excess of capital allowances	**1,178**	249
Current tax charge for the year	£ **-**	£ -

5 **Taxation (Continued)**

The company has losses of £613,745 (2010 £609,374) available to carry forward against future trading profits

No provision has been made for the deferred tax asset arising on these losses due to the uncertainty of their recoverability

6 **Tangible fixed assets**

	Freehold reversionary interests	Equipment	Total
Cost/valuation			
At 1 January 2011	11,500,000	36,850	11,536,850
Disposal	-	(11,750)	(11,750)
At 31 December 2011	11,500,000	25,100	11,525,100
Depreciation			
At 1 January 2011	-	23,860	23,860
Charge in year	-	6,156	6,156
Disposal	-	(11,750)	(11,750)
At 31 December 2011	-	18,266	18,266
Net book value			
At 31 December 2011	**11,500,000**	**6,834**	**£ 11,506,834**
At 31 December 2010	11,500,000	12,990	£ 11,512,990

The freehold investment properties represent a portfolio of ground rents.

The investment properties were valued on an actuarial basis by a leading firm of financial and actuarial consultants as at 29 February 2008 As at 31 May 2011 the actuaries have performed a supplementary analysis of the actuarial valuation to produce an updated valuation estimate based on rolling forward the valuation The updated valuation of the investment properties of £11,500,000 has been adopted by the directors for the purposes of the 31 December 2011 financial statements, adjusted for disposals since that valuation date

The basis of this valuation was to project risk adjusted income streams generated by the portfolio over 150 years, discounted by a risk free rate of return The principle assumptions used in the 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 cash flow date

6 **Tangible fixed assets (Continued)**

Taxation	-	no allowance has been made for taxation in projecting the future revenue flow
Incidence rates for lease extensions and the price charged	-	Historic rates and LTV valuation

The assumption with the most significant impact on the valuation is the discount rate used A 1% increase or decrease in this rate reduces or increases the valuation by 27% and 54% respectively

The directors, in carrying out their valuation of the properties at 31 December 2011, have reviewed the basis of the 31 May 2011 valuation and have concluded that there has been no substantive change in the valuation drivers between the two valuation dates.

The historical cost of the properties at 31 December 2011 was £788,666 (2010 £788,666)

7 **Debtors**

	2011	2010
	£	£
Trade debtors	**61,803**	70,111
Other debtors	**29,205**	9,500
	£ 91,008	£ 79,611

8 **Creditors: amounts falling due within one year**

	2011	2010
	£	£
Accruals and deferred income	**£ 40,166**	£ 38,734

9 **Creditors: amounts falling due after more than one year**

	2011	2010
	£	£
Amounts owed to parent company	**£ 1,435,240**	£ 1,422,530

There are no fixed terms of repayment of the holding company loan Interest is charged at Libor+1%

The amount due, subject to note 13, is unsecured and has no specific repayment date Despite the loan being repayable on demand it is not the intention for the loan to be repaid within one year and it has therefore been treated as due after more than one year

10 **Deferred taxation**

No provision for deferred taxation has been made in respect of the property held as an investment which is included in these financial statements at a valuation of £11,500,000 (2010 £11,500,000) It is estimated that if this property were to be sold at that valuation the tax liability would amount approximately to £2,585,000 (2010 £2,810,000)

11 **Share Capital**

	2011	2010
	£	£
Authorised, allotted, issued and fully paid		
200 Ordinary Shares of £1 each	£ 200	£ 200

12 **Reserves and reconciliation of movements in shareholders' funds**

	Revaluation reserve	Share capital	Profit and loss account	Total shareholders' funds
		£	£	£
Opening shareholders' funds	10,711,335	200	(579,998)	10,131,537
Loss for the year	-	-	(8,901)	(8,901)
Closing shareholders' funds	**10,711,335**	**200**	**(588,899)**	**£ 10,122,636**

13 **Contingent liabilities**

The company has given an unlimited guarantee in respect of some of the indebtedness of its United Kingdom holding company and of the related parties Fairhold Holdings (2001) Limited, Fairhold Holdings (2003) Limited and Linecroft Limited The guarantee is supported by a debenture and a charge over the company's properties. At 31 December 2011 the total amount outstanding subject to those guarantees was £106,740,262 (2010 £107,797,985)

14 **Immediate and United Kingdom holding company**

The company's immediate and United Kingdom holding company is Fairhold Holdings Limited, which is registered in England and Wales This parent undertaking is the holding company of both the largest and smallest group for which group accounts are prepared and of which the company is a member Copies of the financial statements are available from Companies House, Crown Way, Maindy, Cardiff, CF14 3UZ

15 **Ultimate holding company**

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

16 **Controlling party**

The ultimate controlling party is the Tchenguiz Family Trust

17 **Related party transactions**

The company has taken advantage of the exemptions provided by Financial Reporting Standard Number 8 '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

During the year the company incurred a management charge of £66,284 (2010 £66,908) from Estates & Management Limited, a related party by virtue of common control and common directors