Petchey Industrial Properties (No 2) Limited

Report and Financial Statements

Year Ended

31 December 2018

Company Number 08603421

MONDAY

A8F3TGZN

A35 30/09/2019 #417

COMPANIES HOUSE

Petchey Industrial Properties (No 2) Limited

Report and financial statements
for the year ended 31 December 2018

Contents

Page:

1	Directors' report
3	Independent auditor's report
6	Statement of comprehensive income
7	Statement of financial position
8	Notes forming part of the financial statements

Directors

S G McClure
J Newland

Secretary and registered office

S McClure, Dockmaster's House, 1 Hertsmere Road, London, E14 8JJ

Company number

08603421

Auditors

BDO LLP, 55 Baker Street, London, W1U 7EU

Petchey Industrial Properties (No 2) Limited

Directors' report
for the year ended 31 December 2018

The directors present their report together with the audited financial statements for the year ended 31 December 2018.

The directors' report has been prepared in accordance with the provisions applicable to small companies entitled to the small companies' exemption.

Results

The statement of comprehensive income is set out on page 6 and shows the profit for the year.

During the period the company made charitable donations of £300,000 (2017 - £900,000).

Principal activities

The principal activity of the company is that of property investment.

Directors

The directors of the company during the year were:

S G McClure
J Newland

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 year.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Going Concern

The company's bank loan of £11.25m, which is secured against the company's investment properties, is repayable on the 2nd March 2020. For further details please refer to note 1.

Auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

BDO LLP have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

In preparing this report the directors have taken advantage of the small companies exemptions provided by section 415A of the Companies Act 2006.

On behalf of the Board

S G McClure

Director

Date 30th September 2019

INDEPENDENT AUDITOR'S REPORT TO MEMBERS OF PETCHEY INDUSTRIAL PROPERTIES (NO 2) LIMITED

Opinion

We have audited the financial statements of Petchey Industrial Properties (No 2) Limited ("the Company") for the year ended 31 December 2018 which comprise the Statement of comprehensive income, the Statement of financial position 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 Financial Reporting Standard 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 2018 and of its 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.

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.

Material uncertainty related to going concern

We draw attention to note 1 to the financial statements, which indicates that the company's bank loan of £11.25m is repayable on 2nd March 2020 and an extension is yet to be agreed. As stated in note 1, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the report and financial statements, other than the financial statements and our auditor's report thereon. 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 Director's 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 prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemptions in preparing the Directors' report and from the requirement to prepare a Strategic report.

Responsibilities of Directors

As explained more fully in the Directors' report, 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.

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 at the Financial Reporting Council's website at: https://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.

BDO LLP

Christopher Young (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London
United Kingdom

Date 30/09/2019

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Petchey Industrial Properties (No 2) Limited

Statement of comprehensive income
for the year ended 31 December 2018

	Note	2018 £	2017 £
Turnover		**2,114,547**	2,044,247
Cost of sales			-
Gross profit		**2,114,547**	2,044,247
Other income		-	54,795
Administrative expenses		**(1,068,303)**	(809,770)
Donations		**(300,000)**	(900,000)
Fair value gain on investment property	6	**3,469,386**	1,148,830
Loss on sale of investment property		-	(22,983)
Operating profit	3	**4,215,630**	1,515,119
Other interest receivable and similar income		**349**	-
Interest payable	4	**(360,109)**	(319,787)
Profit on ordinary activities before taxation		**3,855,870**	1,195,332
Taxation on profit on ordinary activities	5	**(624,144)**	(453,869)
Profit on ordinary activities after taxation and total comprehensive profit for the year		**3,231,726**	741,463

All of the above relate to continuing activities.

The notes on pages 8 to 13 form part of these financial statements.

Petchey Industrial Properties (No 2) Limited

Statement of financial position
at 31 December 2018

Company number 08603421	Note	2018 £	2018 £	2017 £	2017 £
Fixed assets					
Tangible assets	6		**30,300,000**		26,775,000
Derivative financial asset			**23,362**		23,362
			30,323,362		26,798,362
Current assets					
Debtors	7	**540,118**		479,458	
Cash at bank and in hand		**378,734**		566,582	
		918,852		1,046,040	
Creditors: amounts falling due within one year	8	**(11,612,360)**		(11,991,069)	
Net current liabilities			**(10,693,508)**		(10,945,029)
Total assets less current liabilities			**19,629,854**		15,853,333
Creditors: amounts falling due after more than one year	9		**(11,250,000)**		(11,250,000)
Provision for liabilities	10		**(998,664)**		(453,869)
Net assets			**7,381,190**		4,149,464
Capital and reserves					
Called up share capital	12		**100**		100
Profit and loss account			**7,381,090**		4,149,364
Shareholders' funds			**7,381,190**		4,149,464

These financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies regime.

The financial statements were approved by the Board of Directors and authorised for issue on 30th September 2019

S G McClure
Director

The notes on pages 8 to 13 form part of these financial statements.

1 Accounting policies

Petchey Industrial Properties (No 2) Limited is a company incorporated in England & Wales under the Companies Act. The address of the registered office is given on the contents page and the nature of the company's operations and its principal activities are set out in the directors' report. The financial statements have been prepared in accordance with FRS 102 Section 1A Small Entities, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland.

Basis of measurement

The financial statements have been prepared on a historical cost basis, except for the revaluation of investment property and interest rate derivatives.

The preparation of financial statements in compliance with FRS 102 Section 1A Small Entities requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the accounting policies.

The following principal accounting policies have been applied:

Going concern

As at 31 December 2018, the Company had bank borrowings amounting to £11.25m which were due for repayment on 2 March 2020. At the date of these financial statements the directors were confident in their ability to agree the refinancing, however no formal agreement has been reached. These circumstances indicate the existence of a material uncertainty which may cast significant doubt on the company's ability to continue as a going concern. Due to ongoing negotiations and relationship with the lender, these financial statements have been prepared on a going concern basis as the directors consider that the Company will be able to continue to trade as a going concern and meet its liabilities as they fall due

Turnover

Turnover represents rental income receivable from the company's investment properties. Income receivable from operating leases is recognised on a straight line basis over the period of the lease.

Current and deferred taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that a charge attributable to an item of income or expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

Deferred balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date, except:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits;
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met; and
- Where timing differences relate to interests in subsidiaries, associates, branches and joint ventures and the group can control their reversal and such reversal is not considered probable in the foreseeable future.

1 Accounting policies *(continued)*

Investment properties

Investment property is carried at fair value determined annually by the directors and derived from the current market rents and investment property yields for comparable real estate, adjusted if necessary for any difference in the nature, location or condition of the specific asset. No depreciation is provided. Changes in fair value are recognised in the Statement of Comprehensive Income.

Financial instruments

The company classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance the substance of the contractual arrangement.

Financial instruments are recognised on the trade date when the company becomes a party to the contractual provisions of the instrument. Financial instruments are recognised initially at fair value plus, in the case of a financial instrument not at fair value through profit and loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

Financial instruments are derecognised on trade date when the company is no longer a party to the contractual provisions of the instrument.

Reserves

The Group and Company's reserves are as follows:

- Called up share capital reserve represents the nominal value of the shares issued.
- Profit and loss account represents cumulative profits or losses, net of dividends paid and other adjustments.

2 Judgements in applying accounting policies and key sources of estimation uncertainty

Assumptions have been made by the directors when calculating the fair value of the investment property in relation to yields and comparable properties.

3 Operating profit

	2018 £	2017 £
This has been arrived at after charging:		
Amounts paid to the company's auditors:		
- Audit of the company's financial statements	**11,420**	10,160
- Tax compliance	**2,032**	1,585

4 Finance costs

	2018 £	2017 £
Bank interest payable	**360,109**	319,787

5 Taxation on profit from ordinary activities

	2018 £	2017 £
UK corporation tax		
Current tax charge	**79,349**	-
Deferred tax		
Origination and reversal of timing differences	**572,795**	453,869
Adjustments in respect of prior periods	**(28,000)**	-
Tax on profit on ordinary activities	**624,144**	453,869

The tax assessed for the year is higher/lower than the standard rate of corporation tax in the UK applied to profit before tax. The differences are explained below:

Factors affecting the tax charge for the year	2018 £	2017 £
Profit on ordinary activities before tax	**3,855,870**	1,195,332
Tax on profit on ordinary activities at the standard rate of corporation tax in the UK of 19.00% (2017 – 19.25%)	**732,615**	230,101
Effects of:		
Expenses not deductible for tax purposes	**5,917**	260
Group relief surrendered	**-**	(68,830)
Income not taxable for tax purposes	**(659,183)**	-
Chargeable gains	**640,183**	-
Adjustments to tax charge in respect of previous periods	**(28,000)**	
Adjust closing deferred tax rate	**(117,490)**	(25,850)
Adjust opening deferred tax	**50,102**	-
Deferred tax in relation to chargeable gains	**-**	318,188
Tax charge for the year	**624,144**	453,869

6 Tangible assets

	Investment properties £
Valuation	
At 1 January 2018	26,775,000
Additions	55,614
Revaluation	3,469,386
At 31 December 2018	**30,300,000**
Net book value	
At 31 December 2018	**30,300,000**
At 31 December 2017	26,775,000

The historical cost of the freehold land and buildings as at 31 December 2018 £2,650,653 (2017 - £22,595,039).

7 Debtors

	2018 £	2017 £
Trade debtors	**286,312**	195,700
Other debtors	**253,806**	283,758
	540,118	479,458

All amounts shown under debtors fall due for payment within one year.

8 Creditors: amounts falling due within one year

	2018 £	2017 £
Trade creditors	**24,639**	37,270
Tenant deposits	**160,810**	120,689
Accruals and deferred income	**612,851**	394,795
Other creditors	**46,258**	48,763
Other taxation, social security and VAT	**47,391**	44,074
Amounts owed to group undertakings (note 14)	**10,641,062**	11,345,478
Corporation Tax	**79,349**	-
	11,612,360	11,991,069

9 Creditors: amounts falling due after more than one year

	2018 £	2017 £
Bank loan (secured)	**11,250,000**	11,250,000

The bank loan has an interest rate of 2.5% plus a margin. The loan has a redemption date of 2 March 2020 and is secured against the company's investment property.

Maturity of debt:	2018 £	2017 £
In one year or less	-	-
In more than one year but not more than two years	**11,250,000**	-
In more than two years but not more than five years	-	11,250,000
	11,250,000	11,250,000

10 Provision for liabilities

	2018 £	2017 £
Deferred tax	**998,664**	453,869

The deferred tax liability relates to latest gains on the investment property valuations.

11 Financial instruments

The Company's financial instruments may be analysed as follows:

	2018 £	2017 £
Financial assets		
Financial assets measured at amortised cost	**665,047**	762,284
Financial assets at fair value	**23,362**	23,362
	688,409	785,646
Financial liabilities		
Financial liabilities measured at amortised cost	**22,735,920**	22,884,815

12 Share capital

	Allotted, called up and fully paid			
	2018 Number	2017 Number	2018 £	2017 £
Ordinary shares of £1 each	**100**	100	**100**	100

13 Leasing agreements

Future total minimum lease receivables under non-cancellable operating leases on the company are as follows:

	2018 £	2017 £
Less than a year	**1,708,018**	1,839,654
Between one and five years	**4,435,422**	4,864,980
More than five years	**2,509,051**	3,774,910
	8,652,490	10,479,544

14 Related party transactions

At 31 December 2018 the company owed £10,299,832 (2017 - £10,299,832) to Petchey Industrial Holdings Limited, a fellow subsidiary company of Petchey Industrial Investments Limited and IHL Property Holdings Limited.

At 31 December 2018 the company owed £341,229 (2017 - £1,045,646) to Petchey (Holdings) Limited, a fellow subsidiary company of IHL Property Holding Limited.

15 Control

The company is a wholly owned subsidiary of IHL Property Holdings Limited, a company incorporated in the Isle of Man, which is itself owned by the Bulgham Charitable Trust, an Isle of Man discretionary trust, exclusively for the benefit of charitable beneficiaries.

The trustees of Bulgham Charitable Trust are Mr D J Morgan, Mrs A L Slee and St Jame's Trustees Limited.