

Longmartin Properties Limited

Annual Report for the year ended 30 September 2019



Longmartin Properties Limited

Annual Report

For the year ended 30 September 2019

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Longmartin Properties Limited

Directors and Officers

Directors

M A Jones (Chairman)

B Bickell

F W Scarborough

T J C Welton

A J T Scott

Company Secretary

P R Thomas

Registered office

22 Ganton Street

Carnaby

London

W1F 7FD

Longmartin Properties Limited

Strategic Report

The directors present their Strategic Report on the Group for the year ended 30 September 2019.

Principal activities

The Group invests in commercial and residential property in London's West End. It holds the properties for rental income and capital appreciation and actively manages the assets to improve them and maximise returns. The directors envisage no changes to its current activities.

Business review

The Group has long leasehold interests in a number of properties which form an island site of almost 1.9 acres, with frontages to Long Acre and Upper St. Martin's Lane in Covent Garden, London which comprises;

- 21 shops with a total area of 69,000 sq.ft.;
- 9 restaurants, cafés and leisure units with a total area of 42,000 sq.ft.;
- 102,000 sq.ft. of offices; and
- 75 apartments with a total area of 55,000 sq.ft.

During the year, the Group completed the redevelopment of Sussex House, a 13,000 sq. ft. mixed-use building on the corner of Long Acre and Upper St. Martin's Lane. At 30 September 2019, one of the office units had been let and the retail space was under offer. Since year end, the remaining office units have been let.

The scheme to improve St Martin's Courtyard, including the creation of two new restaurant units, commenced during the year. Since year end, the works have completed.

At 30 September 2019, the Group's properties were valued at £418.0 million (2018: £449.2 million), a decrease of 6.9% in the year. The equivalent yield increased by 12 basis points to 3.94% (2018: 3.82%). During the year, our valuers reduced their estimate of retail ERVs on Long Acre by 13.9%. This reflects the "high street" nature of Long Acre which is characterised by large retail units, relatively high rental tones and overall rents, and where ownerships are fragmented. Occupier demand for these larger shops has declined and there has been a noticeable increase in the availability of space on Long Acre during the year.

The Group had long-term third-party borrowings of £120.0 million (2018: £120.0 million) and net assets of £246.3 million (2018: £278.9 million).

Principal risks and uncertainties

The Group's principal risks have remained broadly unchanged over the year and relate to the location of its portfolio and certain aspects of its strategy.

Location of property assets

The Group's property assets are concentrated in Covent Garden, in the West End of London. The prosperity of the Group's retail, restaurant, café and leisure occupiers is heavily dependent on the West End's economy, which is underpinned by large numbers of visitors. A sustained and significant fall in visitor numbers, footfall and/or spending would adversely affect our tenants and reduce occupier demand, leading to increased vacancy, reduced rental income and reduced capital values. Risks include:

- Fall in popularity of the West End
- Changes in consumer tastes, habits or spending power
- Competing destinations
- Events which discourage visitors e.g. threats to security or public safety due to terrorism

The West End has a wide and enduring appeal. More than just a shopping destination, its variety of theatres, cinemas, parks, museums, galleries and leisure venues attract unrivalled numbers of visitors, compared with shopping centres outside the West End. The Group is not complacent and recognises that these visitors, and the local working and residential communities, have a choice of where to shop and spend their leisure time.

The Group looks to ensure that its property maintains a distinct, vibrant and appealing identity, through a holistic management strategy which includes brand selection and promotion activities.

Longmartin Properties Limited

Strategic Report (continued)

Principal risks and uncertainties (continued)

External threats such as terrorism, faced by all high-profile locations such as London, are often beyond the Group's control, and are an inherent risk in the geographically-focused investment strategy. The Group works with local bodies and statutory authorities to maximise the safety of visitors to its properties and its surrounding areas and has detailed emergency response plans. The Group has terrorism and loss of income insurance in place.

Regulatory risk

Increasing regulation and its unforeseen consequences causes uncertainty. Changes in national and local policies and regulation could increase costs, adversely limiting the ability to optimise revenues and affect values.

All of the Group's properties are located within the jurisdiction of Westminster City Council. Changes to their policies, particularly those relating to planning and licensing, could have a significant impact on the Group's ability to maximise the long-term potential of its assets. The Group works closely with Westminster City Council to ensure that the properties are operated in a manner which complies with local policies and statutes. The Group's portfolio has a mix of uses so the Group is not reliant on income from one particular use.

Sustainability regulations are increasing and becoming more complex. Social responsibility targets and obligations raise costs and, in extremis, could limit the ability to maximise values and income. The Group engages with specialist advisors to mitigate the risks of non-compliance.

Macroeconomic risk

Periods of economic and political uncertainty and lower confidence could reduce consumer spending. Together with upward cost pressures, this could reduce tenant profitability and occupier demand. Changing economic conditions could lead to a decline in the UK real estate market, e.g. due to the global political landscape, currency fluctuations, interest rate expectations, bond yields, availability and cost of finance and the relative attractiveness of property against other asset classes. This could result in declining valuations, decreasing net asset value, amplified by the effect of gearing, and possible loan covenant defaults. The Group's quarterly reporting includes forecasts of compliance and headroom in respect of debt covenants.

The Group focuses on assets in a particular location and with uses where there is a structural imbalance between availability of space and demand, and which have, historically, proved to be economically resilient. The Group periodically assesses investment market conditions; this includes annual external valuations.

The Group's loan-to-value ratio was 28.7% at 30 September 2019 (2018: 26.7%).

Key performance indicators

The key drivers of performance are sustained rental growth, high occupancy levels, and low obsolescence. These underpin long-term growth in capital values. Rental income decreased by 6.5% compared with the previous year. This was predominantly due to development vacancy during the year.

There is no published property performance index which is comparable specifically to a portfolio of mixed use buildings such as the Group owns. Therefore, the Group has used the IPD UK Monthly Index, which tracks all main commercial property categories across the UK, as the relevant benchmark. The performance against this benchmark was as follows:

	Group	Benchmark
Capital Value Return	-8.7%	-2.28%
Total Property Return	-5.7%	2.88%

See page 3 for a discussion on the Group's property portfolio in the year.

Longmartin Properties Limited

Strategic Report (continued)

Management of financial risks

The Group is exposed to credit risk and liquidity risk.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

The Group reviews the creditworthiness of potential tenants prior to entering into contractual arrangements. Where appropriate, tenants are required to provide cash deposits to mitigate the potential loss in the event of default. At 30 September 2019, tenant deposits totalling £1.2 million were held against their rent payment obligations. These are not included within the Group Balance Sheet.

Provision is made in full where recovery of financial assets is, in the opinion of the directors, uncertain. The carrying amount of financial assets, net of provisions for impairment, represents the Group's maximum exposure to credit risk.

Funding for development schemes is currently provided through loans from the shareholders.

The Group generally holds minimal cash balances, with any surplus cash after the payment of dividends is used to repay borrowings due to the shareholders.

Liquidity risk

The directors keep under review the Group's funding requirements to ensure it has sufficient facilities available to meet its commitments and invest in its portfolio.

Prospects

Uncertainties stemming from Brexit and the political impasse in Parliament, which have continued throughout the year, are weighing on UK business and consumer confidence, resulting in low levels of growth and investment nationally. At the same time, trends in consumer spending patterns and structural changes in traditional, national retailing, resulting from developments in technology and logistics, continue to have a significant impact on retailers' space requirements and their appetite to take on new commitments.

London's status as a global destination for business and visitors, and the breadth and scale of its economy, means it is not solely reliant on the fortunes of the UK economy. Its unique features, and those of the West End in particular, underpin the resilience of our portfolio and continue to provide a considerable degree of insulation from national economic headwinds.

The West End has an exceptional volume of daily visitors, unmatched by any other UK location. With an estimated 200+ million visits per year, its catchment comprises a huge local workforce, nearly nine million Londoners and a similar number in the Home Counties who can easily visit for a day, as well as domestic and international tourists. This creates a seven-days-a-week trading environment for our occupiers, with access to an affluent, diverse customer base.

The Group's focus is on ensuring its location maintains and grows its appeal to businesses and those who come as tourists, or to work or to live. The aim of this long-term, careful curation and marketing of our location is to support the prosperity of our tenants' businesses and sustain demand for the commercial and residential accommodation we offer. Importantly, we continue to identify and implement ways we can improve our buildings and their long-term income potential although, in the short term, this may temper our income growth.

By order of the Board



B Bickell

Director

11 December 2019

Longmartin Properties Limited

Directors' Report

Registered No. 05291183

The directors present their report and the audited consolidated financial statements of the Group and Company for the year ended 30 September 2019.

Business Review

A review of the Company's business during the year, the principal risks and uncertainties, financial risk management and future prospects are included in the Strategic Report which should be read in conjunction with this report.

Results

The results for the year are set out in the Group Statement of Comprehensive Income on page 10.

Net property income for the year amounted to £13,487,000 (2018: £14,702,000). Administrative expenses totalled £233,000 (2018: £359,000).

Loss before tax amounted to £32,648,000 (2018: loss before tax of £2,819,000). After a taxation credit amounting to £5,119,000 (2018: credit of £854,000), loss for the financial year amounted to £27,529,000 (2018: loss of £1,965,000).

Dividends

Dividends totalling £5,100,000 were paid during the year. In the prior year, dividends totalling £5,900,000 were paid. See note 7 for further details.

The directors recommend the payment of a final dividend of 11.244p per ordinary share (2018: 16.063p), amounting to £1,750,000 (2018: £2,500,000), in respect of the current year under review.

Directors

The directors who served during the year were as follows:

M A Jones (Chairman)
B Bickell
F W Scarborough
T J C Welton
A J T Scott

None of the directors who served during the year had any interests in the share capital of the Company.

Employees

The Group has no employees (2018: None).

Directors' indemnities and directors' and officers' liability insurance

The Company indemnifies each of the directors against any liability incurred by the directors in the course of their office to the extent permitted by law. The third party indemnity was in force during the financial year and also up to the date of signing the financial statements. The Company also maintains Directors' and Officers' Liability Insurance.

Going concern

The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least 12 months from the date these financial statements were approved, based on the continued financial support from its shareholders. The directors have received confirmation that the shareholders intend to support the Group for a period of at least one year from the date of signing the financial statements. Therefore, they continue to adopt the going concern basis in preparing the financial statements. See note 1 to the financial statements for further details.

Statement of directors' responsibilities

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

Longmartin Properties Limited

Directors' Report (continued)

Statement of directors' responsibilities (continued)

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, comprising Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' ("FRS 102")), 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 Group and Company and of the profit or loss of the Group for that period. 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;
- state whether FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and 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 Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor

Ernst & Young LLP have indicated their willingness to continue in office and a resolution to reappoint them as auditor will be proposed at the next annual general meeting.

Disclosure of information to auditors

The directors who were members of the Board at the time of approving the Directors' Report are listed on page 2. Having made enquiries of fellow directors and of the Group and Company's auditor, each of these directors confirms that:

- a. to the best of each director's knowledge and belief, there is no information (that is, information needed by the Group and Company's auditor in connection with preparing their report) of which the Group and Company's auditor is unaware; and
- b. each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Group and Company's auditor is aware of that information.

By order of the Board



P R Thomas
Company Secretary
11 December 2019

Independent auditor's report to the members of Longmartin Properties Limited

Opinion

We have audited the financial statements of Longmartin Properties Limited ('the parent Company') and its subsidiaries (the 'Group') for the year ended 30 September 2019 which comprise the Group Statement of Comprehensive Income, Group and Company Balance Sheets, Group and Company Statement of Changes in Equity, Group Cash Flow Statement and the related notes 1 to 22, 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 Group's and of the parent Company's affairs as at 30 September 2019 and of the Group's loss 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 below. We are independent of the Group and parent 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.

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 Group's or the parent 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.

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 this 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

Independent auditor's report to the members of Longmartin Properties Limited (continued)

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 strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have 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 Group and the parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or 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 parent Company 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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on pages 6 and 7, 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 Group's and the parent 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 Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

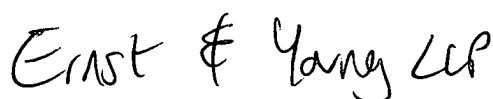
Auditor's responsibilities for the audit of the financial statements

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 on 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.



Daniel Saunders (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor
London

11 December 2019

Longmartin Properties Limited

Group Statement of Comprehensive Income For the year ended 30 September 2019

	Notes	2019 £'000	2018 £'000
Revenue	2	17,731	18,567
Rents payable		(400)	(728)
Other property charges	3	(3,844)	(3,137)
Net property income		13,487	14,702
Administrative expenses	4	(233)	(359)
Operating profit before investment property valuation movements		13,254	14,343
Net revaluation deficit on investment properties	8	(39,469)	(11,066)
Operating (loss)/profit		(26,215)	3,277
Finance income		18	8
Finance costs		(6,451)	(6,104)
Net finance costs	5	(6,433)	(6,096)
Loss before tax		(32,648)	(2,819)
Tax credit for the year	6	5,119	854
Loss and total comprehensive loss for the year		(27,529)	(1,965)

The above results relate to the continuing operations of the Group.

Longmartin Properties Limited

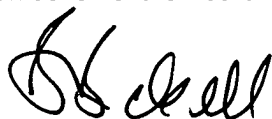
Balance Sheets As at 30 September 2019

Registered No. 05291183

		Group		Company	
	Notes	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Non-current assets					
Fixed assets - Investment properties	8	427,552	459,692	427,552	459,692
Accrued income	9	947	409	947	409
Other receivables	10	1,336	1,329	1,336	1,329
Investment in subsidiaries	11	-	-	-	-
		429,835	461,430	429,835	461,430
Current assets					
Trade and other receivables	12	3,375	2,912	3,385	2,944
Cash and cash equivalents		1,154	2,557	974	2,418
		4,529	5,469	4,359	5,362
Current liabilities					
Trade and other payables	13	(21,695)	(15,409)	(21,539)	(15,315)
Net current liabilities		(17,166)	(9,940)	(17,180)	(9,953)
Total assets less current liabilities		412,669	451,490	412,655	451,477
Non-current liabilities					
Borrowings	14	(130,550)	(130,462)	(130,550)	(130,462)
Deferred tax	15	(35,859)	(42,139)	(35,859)	(42,139)
Net assets		246,260	278,889	246,246	278,876
Equity					
Share capital	16	15,564	15,564	15,564	15,564
Share premium	17	71,396	71,396	71,396	71,396
Retained earnings	17	159,300	191,929	159,286	191,916
Total shareholders' equity		246,260	278,889	246,246	278,876

The Company made a loss of £27,530,000 (2018: loss of £1,966,000) in the year.

On behalf of the Board who approved the financial statements on pages 10 to 24 on 11 December 2019.



B Bickell
Director

Longmartin Properties Limited

Group Statement of Changes in Equity For the year ended 30 September 2019

	Note	Share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
At 1 October 2018		15,564	71,396	191,929	278,889
Loss and total comprehensive loss for the year		-	-	(27,529)	(27,529)
Transactions with owners:					
Dividends paid	7	-	-	(5,100)	(5,100)
At 30 September 2019		15,564	71,396	159,300	246,260
At 1 October 2017		15,564	71,396	199,794	286,754
Loss and total comprehensive loss for the year		-	-	(1,965)	(1,965)
Transactions with owners:					
Dividends paid	7	-	-	(5,900)	(5,900)
At 30 September 2018		15,564	71,396	191,929	278,889

Company Statement of Changes in Equity For the year ended 30 September 2019

	Note	Share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
At 1 October 2018		15,564	71,396	191,916	278,876
Loss and total comprehensive loss for the year		-	-	(27,530)	(27,530)
Transactions with owners:					
Dividends paid	7	-	-	(5,100)	(5,100)
At 30 September 2019		15,564	71,396	159,286	246,246
At 1 October 2017		15,564	71,396	199,782	286,742
Loss and total comprehensive loss for the year		-	-	(1,966)	(1,966)
Transactions with owners:					
Dividends paid	7	-	-	(5,900)	(5,900)
At 30 September 2018		15,564	71,396	191,916	278,876

Longmartin Properties Limited

Group Cash Flow Statement For the year ended 30 September 2019

	Notes	2019 £'000	2018 £'000
Net cash from operating activities	18	11,487	14,226
Corporation tax paid		(1,121)	(1,972)
Interest received		18	8
Interest paid		(6,220)	(5,999)
Net cash generated from operating activities		4,164	6,263
 Cash flows from investing activities			
Expenditure on investment properties		(7,067)	(4,912)
Net cash used in investing activities		(7,067)	(4,912)
 Cash flows from financing activities			
Equity dividends paid to shareholders	7	(5,100)	(5,900)
Increase in amounts due to shareholders		6,600	5,900
Net cash from financing activities		1,500	-
Net (decrease)/increase in cash and cash equivalents	19	(1,403)	1,351
Cash and cash equivalents at the beginning of the year		2,557	1,206
Cash and cash equivalents at the end of the year		1,154	2,557

Longmartin Properties Limited

Notes to the financial statements

1. Accounting policies

Basis of preparation

Longmartin Properties Limited (the "Company") is a limited company and is incorporated and domiciled in the UK, and registered in England and Wales. The address of the registered office is given on page 2. The nature of the Group's operations is set out in the Strategic Report on page 3.

The financial statements have been prepared in accordance with Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' ("FRS 102"). The financial statements have been prepared under the historical cost convention, as modified by the annual revaluation of investment properties and in accordance with the Companies Act 2006.

The preparation of financial statements in conformity with FRS 102 requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the directors' best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. The valuation of investment properties is the only significant judgement, assumption and estimate in these financial statements and is discussed in more detail below.

As permitted by Section 408 of the Companies Act 2006, no Statement of Comprehensive Income is presented for the Company.

A summary of the significant accounting policies and methods of computation which have been applied and used consistently in all years presented is set out below.

Going concern

The Group adopts the going concern basis in preparing its financial statements. The Group prepares detailed forecasts which show that rental income underpins the operational performance of the Group and it, together with cash flows from operational activities, are expected to continue to grow at a steady pace over the long-term. The Group has no obligation to repay its secured term loan in advance of its maturity in December 2026.

The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least 12 months from the date these financial statements were approved, based on the continued financial support from its shareholders. The directors have received confirmation that the shareholders intend to support the Group for a period of at least one year from the date of signing the financial statements. Therefore, they continue to adopt the going concern basis in preparing the financial statements.

Significant judgements, assumptions and key estimates

The preparation of financial statements in conformity with FRS 102 requires the directors to make judgements and estimates about the carrying amounts of assets and liabilities, in applying the Group's accounting policies. The judgements and estimates are based on historical experience and other relevant factors, including expectations of future events, and are reviewed on a continual basis. Although the estimates are made using the directors' best knowledge of the amount, event or actions, actual results may differ from the original estimates.

Significant area of estimation uncertainty

The investment property portfolio is valued by independent third party valuers, Knight Frank LLP.

Values are inherently subjective due to, among other factors, the individual nature of each property and the expected future rental income. As a result, the valuation the Group places on its property portfolio is subject to a degree of uncertainty and is made on the basis of assumptions which may not prove to be accurate, particularly in periods of volatility or low transaction flow in the commercial property market. Knight Frank LLP make a number of assumptions in forming their opinion on the valuation of the investment properties, including, but not limited to, matters such as the tenure and tenancy details for the properties, ground conditions at the properties, the structural condition of the properties, prevailing market yields and comparable market transactions. These assumptions are in accordance with the RICS Valuation Standards. However, if any assumptions made by the external valuer prove to be incorrect, this may mean that the value of the Group's properties differs from the valuation reported in the financial statements, which could have a material effect on the Group's financial position.

Longmartin Properties Limited

Notes to the financial statements (continued)

1. Accounting policies (continued)

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiaries. Subsidiaries are those entities controlled by the Company. Control exists when the Company has the power to direct the financial and operating activities of an entity so as to obtain benefits from its activities.

In the Company's Balance Sheet, investments in subsidiaries are included at cost less any provision for impairment.

Net property income

Rental income arises from operating leases granted to tenants. It is recognised on a straight-line basis over the term of the lease. Rental income uplifts arising as a result of rent reviews are recognised when agreement of terms is reasonably certain.

The cost of lease incentives offered to tenants to enter into a lease, typically initial rent-free periods, is recognised on a straight-line basis over the non-cancellable period of the lease, being the earlier of its expiry date or the date of the first break option.

Payments received from tenants to surrender their lease obligations are recognised immediately in the Statement of Comprehensive Income.

Service charge income is recognised as income over time in the year in which the services are rendered. Revenue is recognised over time because the tenants benefit from the services as soon as they are rendered by the Group. The actual services provided each reporting period are determined using costs incurred as the input method. As the Group acts as a principal, service charge income is shown gross in the financial statements.

Irrecoverable property costs are expensed to the Statement of Comprehensive Income in the year to which they relate. Initial direct costs incurred in arranging an operating lease are added to the carrying value of investment properties, and are subsequently recognised as an expense over the lease term on the same basis as the lease income.

Current and deferred corporation tax

The tax charge or credit in a given year comprises current and deferred tax.

Current tax is the corporation tax payable on taxable income for the current year adjusted for prior years' under or over-provisions.

Deferred tax is recognised in respect of timing differences that have originated but not reversed at the Balance Sheet date, with the exception of deferred tax assets, which are recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the Balance Sheet date. Deferred tax is measured on a non-discounted basis.

Investment properties

Investment properties are initially recognised on acquisition at cost, including related acquisition costs, when the Group assumes control of the property. Investment properties are revalued annually to reflect fair value. Fair value is determined by external professional valuers. The fair value, as determined by the valuers, is adjusted for the carrying value of leasehold interests and unamortised lease incentive and letting cost balances.

Gains or losses arising on the revaluation of investment properties are included in the Statement of Comprehensive Income. Depreciation is not provided in respect of investment properties.

Longmartin Properties Limited

Notes to the financial statements (continued)

1. Accounting policies (continued)

Investment properties (continued)

Additions to properties include costs of a capital nature only. Expenditure is classified as capital when it results in future economic benefits which are expected to accrue to the Group. All other property expenditure is written-off in the Statement of Comprehensive Income as incurred.

Premiums payable to tenants in connection with the surrender of their lease obligations are capitalised if they arise in connection with a value-enhancing project, otherwise they are recognised immediately in the Statement of Comprehensive Income.

Amounts received by way of compensation for dilapidations from tenants vacating properties are credited against the cost of reinstatement works. Where the Group has no intention of carrying out such works, the amounts received are credited to the Statement of Comprehensive Income.

Disposals of investment properties are recognised in the period when control of the property transfers to the buyer. Typically, disposal will either occur on unconditional exchange of contracts or completion. Where completion is expected to occur significantly after exchange, or where the Group continues to have significant outstanding obligations after exchange of contracts, control will not usually transfer until completion. Any gain or loss on disposal, being the difference between the net disposal proceeds and the carrying value of the property, is included in the Statement of Comprehensive Income in the period in which the property is derecognised.

All of the Group's leases to its tenants are operating leases except where the Group grants long leasehold interests to tenants, in which case, as substantially all the risks and rewards of ownership are transferred to the tenant, the property is not recognised as an investment property.

Trade receivables and payables

Trade receivables and trade payables are recognised at fair value and subsequently held at amortised cost, less any provision for impairment in respect of trade receivables.

Tenant lease incentives are included in current trade and other receivables when the amounts to be charged against rental income fall within one year of the Balance Sheet date. Amounts which will be charged against rental income in more than one year are included in non-current assets.

Cash and cash equivalents

Cash and cash equivalents comprise cash held in bank accounts and cash deposits. Cash held on deposit which has certain conditions restricting its use is classified as other receivables.

Financial instruments

The Group has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

Financial assets and liabilities are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Finance lease liabilities are recognised for investment properties held under a leasehold interest. The liability is initially recognised at the fair value of the investment property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance costs and the reduction of the finance lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are charged to the Statement of Comprehensive Income. Rents payable in excess of the minimum lease payments are charged as expenses within property costs in the year in which they arise.

Debt instruments are subsequently carried at amortised cost, using the effective interest method.

Financial liabilities are derecognised when the liability is extinguished, that is, when the contractual obligation is discharged, cancelled or expires.

Longmartin Properties Limited

Notes to the financial statements (continued)

2. Revenue

	2019 £'000	2018 £'000
Rents invoiced	15,651	17,232
Lease incentives	315	(147)
Rental income	15,966	17,085
Service charge income	1,765	1,482
	17,731	18,567

The Group's revenue is generated entirely from its principal activity of property investment located in Covent Garden, London.

3. Other property charges

	2019 £'000	2018 £'000
Property outgoings	2,079	1,655
Service charge expenses	1,765	1,482
	3,844	3,137

4. Administrative expenses

Administrative expenses totalled £233,000 (2018: £359,000). Auditor's remuneration included audit fees of £33,400 (2018: £28,787).

The five directors (2018: five) who served during the year received no remuneration for services as director of the Group (2018: £Nil).

The Group has no employees (2018: None).

5. Net finance costs

	2019 £'000	2018 £'000
Finance income		
Interest receivable	18	8
	18	8
Finance costs		
Loan interest payable	(5,404)	(5,405)
Interest payable on loans from shareholders	(532)	(184)
Finance lease interest	(515)	(515)
	(6,451)	(6,104)
Net finance costs	(6,433)	(6,096)

Longmartin Properties Limited

Notes to the financial statements (continued)

6. Tax credit for the year

	2019 £'000	2018 £'000
(a) Tax credit for the year		
Current tax:		
United Kingdom corporation tax at 19% (2018: 19%)	1,220	1,523
Adjustments in respect of prior years	(59)	-
	<u>1,161</u>	<u>1,523</u>
Deferred tax:		
Capital allowances	245	158
Investment property revaluations	(6,525)	(2,535)
Deferred tax (note 15)	<u>(6,280)</u>	<u>(2,377)</u>
Tax credit for the year	<u>(5,119)</u>	<u>(854)</u>

(b) Factors affecting the total tax charge

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

	2019 £'000	2018 £'000
Loss before tax	<u>(32,648)</u>	<u>(2,819)</u>
Loss multiplied by the standard rate of corporation tax in the United Kingdom of 19% (2018: 19%)	(6,203)	(536)
Difference between accounting and tax gain on investment properties	975	(433)
Expenses not deductible for tax purposes	168	115
Adjustments in respect of prior years	(59)	-
Total tax credit for the year	<u>(5,119)</u>	<u>(854)</u>

(c) Factors that may affect future tax charges

In September 2016, the UK Corporation tax rate was changed from 18% to 17%, effective from 1 April 2020. Deferred tax balances at 30 September 2019 are measured at the rate of 17%.

Longmartin Properties Limited

Notes to the financial statements (continued)

7. Dividends

	2019 £'000	2018 £'000
Final dividend for the year ended 30 September 2018		
Final dividend at 16.063p per ordinary share	2,500	-
Interim dividends in respect of the year ended 30 September 2019:		
First interim at 7.710p per ordinary share	1,200	-
Second interim at 8.995p per ordinary share	1,400	-
Interim dividends in respect of the year ended 30 September 2018:		
First interim at 19.275p per ordinary share	-	3,000
Second interim at 10.923p per ordinary share	-	1,700
Third interim at 7.710p per ordinary share	-	1,200
	5,100	5,900

A final dividend of 11.244p per ordinary share in respect of the year ended 30 September 2019, amounting to £1,750,000 will be proposed at the 2019 annual general meeting.

8. Fixed assets - Investment properties

Group and Company	2019
Leasehold property – over 50 years unexpired	£'000
At 1 October 2018	459,692
Refurbishment and other expenditure	7,329
Net revaluation deficit on investment properties	(39,469)
Book value at 30 September 2019	427,552
Fair value at 30 September 2019	418,000
Add: finance lease asset	11,188
Less: unamortised lease incentives and costs included in other receivables	(1,636)
Book value at 30 September 2019	427,552

Investment properties were subject to external valuation as at 30 September 2019 by qualified professional valuers, being members of the Royal Institution of Chartered Surveyors (RICS), working for Knight Frank LLP, Chartered Surveyors, acting in the capacity of external valuers. All such properties were valued on the basis of fair value in accordance with the RICS Valuation – Global Standards, which incorporate, the International Valuation Standards and the RICS UK Valuation Standards edition current at the valuation date.

The historical cost of properties is £226,068,000 (2018: £218,739,000). At 30 September 2019, the Company had authorised and contracted capital commitments of £5,140,000 (2018: £10,414,000).

Longmartin Properties Limited

Notes to the financial statements (continued)

9. Accrued income

Group and Company

	2019 £'000	2018 £'000
Accrued income in respect of lease incentives	1,369	696
Less: included in trade and other receivables (note 12)	(422)	(287)
	<u>947</u>	<u>409</u>

10. Other receivables (Group and Company)

Other receivables at 30 September 2019 is cash held on deposit which has certain conditions restricting its use and which matures after more than one year. Holding cash in restricted accounts does not prevent the Group from earning returns by placing these monies in interest bearing accounts or on deposit.

11. Investment in subsidiaries

Shares at cost	2019 £'000	2018 £'000
At 1 October and 30 September	-	-

At 30 September 2019 the Company owned the entire issued ordinary share capital of:

	Ordinary shares of £1 each held	Principal activity
Longmartin Investments Limited	100	Property investment
St. Martin's Courtyard Limited	1	Dormant

Both subsidiary undertakings are incorporated in Great Britain and registered in England and Wales. The registered office of the subsidiaries is the same as the Company, as set out on page 2.

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

12. Trade and other receivables

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Amounts due from tenants	2,363	2,038	2,291	2,010
Accrued income in respect lease incentives	422	287	422	287
Amount owed by subsidiary (note 22)	-	-	82	60
Other receivables	590	587	590	587
	<u>3,375</u>	<u>2,912</u>	<u>3,385</u>	<u>2,944</u>

Amounts owed by subsidiary undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

Longmartin Properties Limited

Notes to the financial statements (continued)

13. Trade and other payables

	Group		Company	
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
Rents and service charges invoiced in advance	3,989	4,272	3,852	4,176
Trade payables and accruals in respect of capital expenditure	597	486	597	486
Corporation tax	637	597	637	597
Other payables	2,172	2,354	2,153	2,356
Amount due to shareholders (note 22)	14,300	7,700	14,300	7,700
	21,695	15,409	21,539	15,315

Following a review of the Group's trade and other payables, amounts included in the table above for rents and service charges invoiced in advance and other payables have been reclassified. The 2018 figures have been restated accordingly. This had no impact on the net assets nor profit after tax reported for that year.

Amounts due to shareholders are unsecured, bear a commercial rate of interest, have no fixed date of repayment and are repayable on demand.

14. Borrowings

	Group		Company	
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
Borrowings	120,000	120,000	120,000	120,000
Facility issue costs	(638)	(726)	(638)	(726)
Finance lease liability	11,188	11,188	11,188	11,188
	130,550	130,462	130,550	130,462

Borrowings relate to a secured term loan which is secured by fixed charges over the Company's investment properties and certain cash balances and by floating charges over the assets of the Company.

The Company has no obligation to repay the secured term loan in advance of its maturity on 21 December 2026.

15. Deferred tax

Group and Company	2019	2018
	£'000	£'000
At 1 October	42,139	44,516
Provided in year	(6,280)	(2,377)
At 30 September	35,859	42,139
Comprising:		
Accelerated capital allowances	1,912	1,667
Investment property revaluations	33,947	40,472
	35,859	42,139

Shareholders have undertaken to reimburse the Company in respect of the corporation tax on any chargeable gain which would arise in the event of sale of the Company's properties to a maximum amount of approximately £9,819,000 (2018: £9,819,000), which would be contributed by way of additional share capital.

Longmartin Properties Limited

Notes to the financial statements (continued)

16. Share capital

	2019 £'000	2018 £'000
Group and Company		
Allotted and fully paid ordinary shares		
7,782,100 A ordinary shares of £1 each	7,782	7,782
7,782,100 B ordinary shares of £1 each	7,782	7,782
	<u>15,564</u>	<u>15,564</u>

Each class of ordinary shares has equal voting rights, rights to dividends and rights on winding up of the Company.

17. Reserves

Share premium

Share premium is the amount by which the fair value of the consideration received for ordinary shares exceeds the nominal value of shares issued, net of expenses.

Retained earnings

Cumulative gains and losses are recognised in the Statement of Comprehensive Income. The Company's retained earnings include amounts distributable of £2,938,000 (2018: £2,636,000).

18. Cash flows from operating activities

	2019 £'000	2018 £'000
Loss and total comprehensive loss for the year	(27,529)	(1,965)
Adjusted for:		
Tax credit for the year	(5,119)	(854)
Net finance costs	6,433	6,096
Net revaluation deficit on investment properties	39,469	11,066
Recognition of lease incentives	(315)	147
Cash flows from operations before changes in working capital	12,939	14,490
Increase in trade and other receivables	(843)	(136)
Decrease in trade and other payables	(609)	(128)
	<u>11,487</u>	<u>14,226</u>

19. Analysis of changes in net debt

	At 1.10.2018 £'000	Cash flows £'000	Non-cash item £'000	At 30.9.2019 £'000
Cash and cash equivalents	2,557	(1,403)	-	1,154
Indebtedness:				
Shareholder loans	(7,700)	(6,600)	-	(14,300)
Third party borrowings	(120,000)	-	-	(120,000)
Finance lease liability	(11,188)	-	-	(11,188)
Net debt	(136,331)	(8,003)	-	(144,334)

Longmartin Properties Limited

Notes to the financial statements (continued)

20. Operating leases

Future aggregate minimum rentals receivable under non-cancellable operating leases:

Group

	2019 £'000	2018 £'000
Not later than one year	14,441	14,128
Later than one year but not later than five years	34,275	30,305
Later than five years but not later than ten years	13,867	13,612
Later than ten years	12,426	9,412
	<u>75,009</u>	<u>67,457</u>

Company

	2019 £'000	2018 £'000
Not later than one year	13,519	13,275
Later than one year but not later than five years	33,425	29,485
Later than five years but not later than ten years	13,867	13,612
Later than ten years	12,426	9,412
	<u>73,237</u>	<u>65,784</u>

The Group has over 120 leases granted to its tenants. These vary depending on the individual tenant and the respective property and demise. Leases generally have a term of 3 to 25 years (break clauses may mean the actual term is shorter), at a market rent with provisions to review to market levels on a regular basis.

21. Leasing commitments

Minimum annual commitments under non-cancellable property leases:

Group and Company

	2019 £'000	2018 £'000
Not later than one year	981	1,162
Later than one year but not later than five years	4,689	5,244
Later than five years	193,000	224,357
	<u>198,670</u>	<u>230,763</u>

Longmartin Properties Limited

Notes to the financial statements (continued)

22. Ultimate parent undertaking and related party transactions

The Group is jointly owned by Shaftesbury PLC and The Wardens and Commonalty of the Mystery of the Mercers of the City of London ("The Mercers' Company"). Copies of the financial statements of Shaftesbury PLC are available from the Company Secretary at the registered office at 22 Ganton Street, Carnaby, London, W1F 7FD. The transactions and outstanding balances are summarised below:

	2019 £'000	2018 £'000
Transactions with Shaftesbury PLC:		
Management fees payable	(100)	(100)
Interest payable on shareholder loans	(266)	(92)
Dividends payable	(2,550)	(2,950)
Transactions with The Mercers' Company:		
Head rents payable	(400)	(728)
Interest payable on shareholder loans	(266)	(92)
Interest payable on finance lease	(515)	(515)
Dividends payable	(2,550)	(2,950)
Outstanding balances as at 30 September were:		
Amounts owed to Shaftesbury PLC	7,150	3,850
Amounts owed to The Mercers' Company	7,150	3,850
	14,300	7,700

The Company had the following transactions and outstanding balances with its wholly-owned subsidiary Longmartin Investments Limited:

	2019 £'000	2018 £'000
Head rents receivable	1,047	1,051
Outstanding balances as at 30 September were:		
Amounts owed by Longmartin Investments Limited	82	60