

Hearthstone Investments (Scotland) Limited

SC488587

Annual Report and Financial Statements

Year Ended 31 December 2018

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Hearthstone Investments (Scotland) Limited

Report and financial statements 2018

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Hearthstone Investments (Scotland) Limited

Strategic report

For the year ended 31 December 2018

The directors present their strategic report on the affairs of the company for the year ended 31 December 2018.

Review of the business

Hearthstone Investments (Scotland) Limited ("Hearthstone") is an investment manager which performs investment management services on behalf of a number of institutional investors. The business is a wholly owned subsidiary of Hearthstone Investments PLC.

The Housing Fund for Scotland ("HFFS"), is the first fund to be managed by the Company. It is an exempt property unit trust investing in Scottish housing. The fund was formed in October 2014.

Investments and performance

HFFS is a long-term, closed-ended product with a small group of institutional investors and as such performance year-on-year will not be reported. At the time of signing the accounts the investments made by HFFS are expected to perform over the long-term on a basis consistent with forecast returns.

Distribution Activity

The company successfully activated a mandate from an institutional investor in October 2014 resulting in £30m of capital commitments to the HFFS. No other new commitments have been made by investors since this date.

Financial Performance and KPIs

Under its contract with HFFS the Company receives both ongoing management fees and one-off fees for deploying capital into assets. The Company performed well in the year, contributing a profit of £97,043 to group results. Revenues are expected to increase in the next financial year and then stabilise as the deployment fees from initial investments by HFFS reduce as the fund becomes fully deployed.

A key performance indicator is Funds under Management ("FUM"). This metric increased steadily throughout the year as the commitments by Falkirk Council Pension Scheme were drawn down into the fund.

Financial Position

Net assets at 31 December 2018 were £496,978 (2017: £399,935).

Hearthstone Investments (Scotland) Limited

Strategic report (continued)

For the year ended 31 December 2018

Principal risks and uncertainties

The main risk facing the company is that the overall Hearthstone group is unable to grow Funds under Management sufficiently quickly due to adverse market conditions or competitive pressures. This would result in difficulty raising further funding from group for working capital and a potential shortfall against planned levels of income.

The management team mitigate risk by ensuring that existing products perform within their designed risk/return parameters, and new products are carefully selected to meet demonstrable investor demand.

The company is also exposed to interest rate risk, whereby rapid rises in interest rates could depress the housing market which will indirectly affect returns from the company's residential funds, reducing demand.

Political risk is also a concern with regard to the currently supportive policies of government toward housing. If this is reduced or removed it could have an adverse impact on returns and therefore demand for the company's funds.

Business risks

The company's principal financial assets and liabilities consist of amounts owed by other group companies and deferred income.

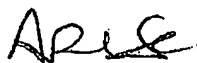
The directors manage the company's exposure to financial risk by researching the credit worthiness of business partners and by seeking advice from the company's external financial advisers.

Financial risk is restricted to the short-term settlement of trading balances with customers and suppliers.

Future Developments

Institutional appetite for residential investment is stronger than it has been for some time, and Hearthstone will focus on accommodating this interest in the short-term. There is a particular focus in Scotland on affordable housing and the Company is well positioned to offer investments in this area given the existing Housing Fund for Scotland..

Approved by the Board on 2 Sept 2019 and signed on its behalf by:



A Smith
Director

23 Austin Friars
London
EC2N 2QP

Hearthstone Investments (Scotland) Limited

Directors' report For the year ended 31 December 2018

The directors present their annual report and audited financial statements of the company for the year ended 31 December 2018.

Principal activities

The principal activity of the company is the provision of fund management and property advisory services.

Business review

The profit for the year after taxation is £97,043 (2017: £86,445).

Going concern

Having reviewed the operational profile of the business, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements. Further detail is provided in note 1 to the financial statements.

Dividends

The directors do not recommend the payment of a dividend (2017: £nil).

Directors

The directors who served throughout the year were as follows:

A Collett
A Smith

Auditor

During the year, PKF Francis Clark were re-appointed auditors for the company and group.

Information for the Auditor

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

The Company held an Annual General Meeting on 11 June at 23 Austin Friars, London EC2N 2QP.

Approved by the Board of Directors on 2 Sept 2019 and signed on its behalf by:



A Smith
Director

23 Austin Friars
London
EC2N 2QP

Hearthstone Investments (Scotland) Limited

Directors' responsibilities statement For the year ended 31 December 2018

The directors are responsible for preparing the Annual 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 estimates that are reasonable and prudent;
- state whether Financial Reporting Standard 101 Reduced Disclosure Framework has been followed subject to any material departures disclosed and explained in the financial statements; and
- prepare the accounts 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 to 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.

Independent auditor's report to the members of Hearthstone Investments (Scotland) Limited

Opinion

We have audited the financial statements of Hearthstone Investments (Scotland) Limited (the 'company') for the year ended 31 December 2018, which comprise the Statement of income and retained earnings, 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 101, Reduced Disclosure Framework (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.

Conclusions relating to going concern

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

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

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, 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.

Opinion on other matter 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 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.

Independent auditor's report to the members of Hearthstone Investments (Scotland) Limited

Matters on which we are required to report by exception

In the light of our knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and the Directors' Report.

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.

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities [set out on page 5], 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 on the Financial Reporting Council's website at 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.



Duncan Leslie (Senior Statutory Auditor)
PKF Francis Clark, Statutory Auditor

North Quay House
Sutton Harbour
Plymouth
Devon
PL4 0RA

Date:

3/9/19

Hearthstone Investments (Scotland) Limited

Statement of Income and Retained Earnings For the year ended 31 December 2018

	Note	Year ended 2018 £	Year ended 2017 £
Turnover	2	233,571	172,854
Operating expenses		(136,528)	(86,409)
Operating profit	3	97,043	86,445
Interest receivable and similar income		-	-
Interest payable and similar charges		-	-
Profit before taxation		97,043	86,445
Taxation on profit	4	-	-
Profit after taxation		97,043	86,445
Retained earnings brought forward		399,835	313,390
Retained earnings carried forward		496,878	399,835

There are no recognised gains or losses in the current year or preceding other than the profit for that year. Accordingly, no separate statement of comprehensive income is presented. All activities derive from continuing operations.

Hearthstone Investments (Scotland) Limited

Statement of financial position As at 31 December 2018

	Note	2018 £	2017 £
Current assets			
Debtors	5	672,026	486,826
		<hr/> 672,026	<hr/> 486,826
Creditors: amounts falling due within one year	6	(175,048)	(86,891)
		<hr/>	<hr/>
Net current assets		496,978	399,935
		<hr/>	<hr/>
Net assets		496,978	399,935
		<hr/>	<hr/>
Capital and reserves			
Called up share capital	7	100	100
Profit and loss account		496,878	399,835
		<hr/>	<hr/>
Shareholder's funds		496,978	399,935
		<hr/>	<hr/>

The financial statements of Hearthstone Investments (Scotland) Limited (registered number SC488587) were approved by the Board of Directors on 2 Sept 2019..

Signed on behalf of the Board of Directors



A Collett
Director

Hearthstone Investments (Scotland) Limited

Notes to the financial statements For the year ended 31 December 2018

1. Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the current year.

Statement of compliance

The company meets the definition of a qualifying entity under Financial Reporting Standard ("FRS") 100: 'Application of Financial Reporting Requirements issued by the Financial Reporting Council. These financial statements were prepared in accordance with FRS 101 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

Basis of preparation

These financial statements have been prepared using the historical cost convention except that as disclosed in the accounting policies certain items are shown at fair value.

Summary of disclosure exemptions

As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard in relation to business combinations, share-based payment, non-current assets held for sale, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash-flow statement, standards not yet effective, impairment of assets and related party transactions. Where required, equivalent disclosures are given in the group accounts of Hearthstone Investments plc. The group accounts of Hearthstone Investments plc are available to the public and can be obtained as set out in note 10.

Turnover

Turnover represents the amounts receivable from the Housing Fund for Scotland ("HPFS"), which is an exempt property unit trust investing in Scottish housing. All turnover derives from the United Kingdom.

Going concern

The company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review which forms part of the strategic report. The strategic report on page 2 describes the financial position of the company and its business risks.

The company remains reliant on financing from its immediate parent undertaking, Hearthstone Investments PLC and will ensure that the company can meet its liabilities as they fall due for a period not less than 12 months from the date of these accounts. Having made enquiries and reviewed the financial position of that company, the board expects the company to be able to operate for the foreseeable future. Accordingly the company expects to continue to adopt the going concern basis in preparing the annual report and accounts.

Taxation

Current tax, being UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

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 in the financial statements that arise from the inclusion of gains and losses in tax assessments in years different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the years 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.

Hearthstone Investments (Scotland) Limited

Notes to the financial statements (continued) For the year ended 31 December 2018

Financial instruments

Classification

The company holds the following financial instruments:

- Short term trade and other debtors and creditors;
- Loans; and
- Cash and bank balances.

All financial instruments are classified as basic.

Recognition and measurement

The company has chosen to apply the recognition and measurement principles in FRS101.

Financial instruments are recognised when the company becomes party to the contractual provisions of the instrument and derecognised when in the case of assets, the contractual rights to cash flows from the assets expire or substantially all the risks and rewards of ownership are transferred to another party, or in the case of liabilities, when the company's obligations are discharged, expire or are cancelled.

Except for loans, such instruments are initially measured at transaction price, including transaction costs, and are subsequently carried at the undiscounted amount of the cash or other consideration expected to be paid or received, after taking account of impairment adjustments.

Loans are initially measured at the present value of future payments, discounted at a market rate of interest, and are subsequently carried at amortised cost using the effective interest method.

2. Segment information

Turnover is wholly attributable to the company's principal activity and arose entirely within the United Kingdom, on a continuing basis.

3. Profit before tax

There were no employees during the year. No director received remuneration during the year. The relevant portion of the group audit fee relating to the company was borne by the ultimate holding company, Hearthstone Investments plc. The audit fee payable by Hearthstone Investments plc was £9,500 (2017: £9,500).

4. Tax on profit

The tax charge comprises:

	2018	2017
	£	£
Current tax		
UK corporation tax	-	-
Total current tax	<u>-</u>	<u>-</u>
Total tax on profit	<u>-</u>	<u>-</u>

Hearthstone Investments (Scotland) Limited

Notes to the financial statements (continued) For the year ended 31 December 2018

4. Tax on profit (continued)

The difference between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2018	2017
	£	£
Profit before tax	97,043	86,445
Tax charge on profit at standard UK corporation tax rate of 19.00%. (2017: 19.25%)	(18,438)	(16,641)
Effects of:		
Expenses not deductible for tax purposes	-	-
Accelerated capital allowances	-	-
Tax losses c/fwd	-	-
Group relief	18,438	16,641
Current tax charge for year	-	-

5. Debtors: amounts falling due within one year

	2018	2017
	£	£
Trade debtors	94,505	5,435
Other tax & social security	-	3,440
Amounts owed by group undertakings	576,721	388,697
Prepayments & accrued income	800	89,254
	672,026	486,826

Hearthstone Investments (Scotland) Limited

Notes to the financial statements (continued) For the year ended 31 December 2018

6. Creditors: amounts falling due within one year

	2018	2017
	£	£
Social security & other taxes	31,279	-
Accruals & deferred income	143,769	86,891
	<u>175,048</u>	<u>86,891</u>

7. Share capital

	2018		2017	
	No	£	No	£
Called up and fully paid				
Ordinary shares of £1 each	100	100	100	100
	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

8. Financial commitments

There were no financial commitments which require disclosure at the balance sheet date or date of signing of the accounts.

9. Contingent liabilities

There were no disclosable contingent liabilities at the balance sheet date or the date of signing of these accounts.

10. Controlling party

The directors regard Hearthstone Investments plc, a company incorporated in the United Kingdom, as the ultimate controlling party.

Hearthstone Investments PLC is the parent company of the largest and smallest group of which the company is a member for which group financial statements are drawn up. Copies of the financial statements are available from the company's registered office, 23 Austin Friars, London EC2N 2QP.