



CANARY WHARF  
GROUP PLC

## **HERON QUAYS INVESTMENTS (RT3) LIMITED**

Registered number: 5438064

### **DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

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# **HERON QUAYS INVESTMENTS (RT3) LIMITED**

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## **HERON QUAYS INVESTMENTS (RT3) LIMITED**

### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2019**

The directors present their report and the financial statements for the year ended 31 December 2019.

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

#### **PRINCIPAL ACTIVITY**

The principal activity of the company is property investment. The company holds properties directly and via a Jersey Property Unit Trust ('JPUT').

#### **RESULTS AND DIVIDENDS**

The loss for the year, after taxation, amounted to £1,212,727 (2018 - profit £212,138).

No dividends have been paid in the year (2018 - £11,350,000).

#### **DIRECTORS**

The directors who served during the year were:

A P Anderson II (resigned 31 December 2019)  
Sir George Iacobescu CBE  
R J J Lyons  
S Z Khan (appointed 31 December 2019)

The company provides an indemnity to all directors (to the extent permitted by law) in respect of liabilities incurred as a result of their office. The company also has in place liability insurance covering the directors and officers of the company. Both the indemnity and insurance were in force during the year ended 31 December 2019 and at the time of the approval of this Directors' Report. Neither the indemnity nor the insurance provide cover in the event that the director is proven to have acted dishonestly or fraudulently.

#### **DISCLOSURE OF INFORMATION TO AUDITOR**

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed 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 ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This report was approved by the board on 21 September 2020 and signed on its behalf.



**C E Hillsdon**  
Secretary

## **HERON QUAYS INVESTMENTS (RT3) LIMITED**

### **DIRECTORS' RESPONSIBILITIES STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2019**

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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

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

- select suitable accounting policies for the company's financial statements 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 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.

## **HERON QUAYS INVESTMENTS (RT3) LIMITED**

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HERON QUAYS INVESTMENTS (RT3) LIMITED**

#### **REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

##### **OPINION**

In our opinion the financial statements of Heron Quays Investments (RT3) Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity; and
- the related notes 1 to 19.

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).

##### **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 RELATING TO GOING CONCERN**

We draw attention to Note 2.2 in the financial statements, which indicates that a material uncertainty exists which may cast significant doubt on the company's ability to continue as a going concern.

The company is funded by a retail loan facility with Canary Wharf Retail Funding Limited which is subject to a minimum Interest Coverage Ratio (ICR) covenant of 175%. The loan also contains a maximum Loan to Value (LTV) covenant of 70%, above which a pay down of the loan is triggered, and an LTV covenant of 65%, above which there is a cash trap such that surplus rents are used to amortise the loan. On the basis of the last valuation addressed to the lenders in November 2019 the LTV ratio was 64.5%.

As explained in Note 2.2, the lenders have waived covenant testing under the loan for two interest payment dates meaning that the first date on which the LTV covenant can be tested is November 2020. Given the ongoing impact of COVID-19 on valuations, it is likely that Canary Wharf Retail Funding Limited may need to request a waiver of covenant testing beyond November 2020 but there can be no assurance that such waiver will be agreed and in those circumstances a partial repayment of the loan would be required. This could take the form of a call under the parent company guarantee provided by Canary Wharf Group plc in relation to £100m of the loan and/or the trapping of surplus rents. Nevertheless, the prospect of future falls in the valuation of retail property assets may mean that these remedies will in themselves be insufficient to cure a breach of the 70% LTV covenant resulting in the company having insufficient funds to cover such repayment as it falls due.

As stated in Note 2.2, the events or conditions described above 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.

## **HERON QUAYS INVESTMENTS (RT3) LIMITED**

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HERON QUAYS INVESTMENTS (RT3) LIMITED**

#### **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 respect of these matters.

#### **RESPONSIBILITIES OF DIRECTORS**

As explained more fully in the directors' responsibilities statement, 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

#### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

##### **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.

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 any material misstatements in the directors' report.

## **HERON QUAYS INVESTMENTS (RT3) LIMITED**

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HERON QUAYS INVESTMENTS (RT3) LIMITED**

#### **Matters on which we are required to report by exception**

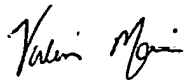
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

#### **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.



Valerie Main (Senior statutory auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
London, United Kingdom  
21 September 2020

**HERON QUAYS INVESTMENTS (RT3) LIMITED**

**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Note	2019 £	2018 £
Turnover		2,300,357	1,435,929
<b>GROSS PROFIT</b>		<u>2,300,357</u>	<u>1,435,929</u>
Movement in fair value of investment properties	10	(7,749,186)	(5,744,206)
<b>OPERATING LOSS</b>		<u>(5,448,829)</u>	<u>(4,308,277)</u>
Income from fixed assets investments	9	(7,435,767)	(3,243,948)
Interest receivable and similar income	6	374,273	371,387
Interest payable and similar charges	7	(1,852,546)	(1,767,027)
<b>LOSS BEFORE TAX</b>		<u>(14,362,869)</u>	<u>(8,947,865)</u>
Tax on loss	8	13,150,142	9,160,003
<b>(LOSS)/PROFIT FOR THE FINANCIAL YEAR</b>		<u>(1,212,727)</u>	<u>212,138</u>
Other comprehensive income for the year		-	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<u><u>(1,212,727)</u></u>	<u><u>212,138</u></u>

The notes on pages 9 to 21 form part of these financial statements.

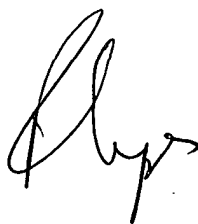


**HERON QUAYS INVESTMENTS (RT3) LIMITED**  
**REGISTERED NUMBER: 5438064**

**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2019**

	Note	2019 £	2018 £
<b>FIXED ASSETS</b>			
Investments	9	146,022,358	160,684,439
Investment property	10	66,128,755	73,877,941
		<u>212,151,113</u>	<u>234,562,380</u>
<b>CURRENT ASSETS</b>			
Debtors: amounts falling due after more than one year	11	821,245	647,059
Debtors: amounts falling due within one year	11	22,241,955	12,869,530
		<u>23,063,200</u>	<u>13,516,589</u>
Creditors: amounts falling due within one year	12	(31,164,765)	(29,761,538)
<b>NET CURRENT LIABILITIES</b>		<u>(8,101,565)</u>	<u>(16,244,949)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		204,049,548	218,317,431
Creditors: amounts falling due after more than one year	13	(59,707,755)	(59,612,769)
Deferred tax	14	-	(13,150,142)
<b>NET ASSETS</b>		<u>144,341,793</u>	<u>145,554,520</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	15	1	1
Retained earnings	16	144,341,792	145,554,519
		<u>144,341,793</u>	<u>145,554,520</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 21 September 2020.



**R J J Lyons**  
Director

The notes on pages 9 to 21 form part of these financial statements.

# HERON QUAYS INVESTMENTS (RT3) LIMITED

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

	Called up share capital	Retained earnings	Total equity
	£	£	£
At 1 January 2019	1	145,554,519	145,554,520
<b>COMPREHENSIVE INCOME FOR THE YEAR</b>			
Loss for the year	-	(1,212,727)	(1,212,727)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	-	(1,212,727)	(1,212,727)
<b>AT 31 DECEMBER 2019</b>	1	144,341,792	144,341,793

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

	Called up share capital	Retained earnings	Total equity
	£	£	£
At 1 January 2018	1	156,692,381	156,692,382
<b>COMPREHENSIVE INCOME FOR THE YEAR</b>			
Profit for the year	-	212,138	212,138
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	-	212,138	212,138
Dividends: Equity capital	-	(11,350,000)	(11,350,000)
<b>AT 31 DECEMBER 2018</b>	1	145,554,519	145,554,520

The notes on pages 9 to 21 form part of these financial statements.

## **HERON QUAYS INVESTMENTS (RT3) LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**

#### **1. GENERAL INFORMATION**

Heron Quays Investments (RT3) Limited is a private company limited by shares incorporated in the UK under the Companies Act 2006 and registered in England and Wales at One Canada Square, Canary Wharf, London, E14 5AB.

The nature of the company's operations and its principal activities are set out in the Directors' Report.

#### **2. ACCOUNTING POLICIES**

##### **2.1 Basis of preparation of financial statements**

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value and in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice, including FRS 102 "the Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland").

##### **Replacement of LIBOR as an interest rate benchmark**

It is anticipated that LIBOR will be replaced or discontinued after the end of 2021, as part of global financial regulators' project to reform interest rate benchmarks. The Company will therefore re-negotiate and/or otherwise amend to accommodate such change in benchmarks, where related instruments mature after 2021.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the company's accounting policies (see Note 3).

The principal accounting policies have been applied consistently throughout the year and the preceding year and are summarised below:

##### **2.2 Going concern**

At the year end, the company is in a net asset position, but has net current liabilities.

However, the company's investments provide an income stream which the directors forecast will enable it to meet its obligations as they fall due for a period of not less than 12 months from the signing date of the financial statements.

The financial statements have been prepared on a going concern basis which assumes the company will be able to meet its liabilities as they fall due for the foreseeable future.

The impact of the COVID-19 outbreak is described in Note 18.

As indicated in Note 17, the company has given fixed and floating charges over substantially all its assets to secure the commitments of certain other group undertakings. In particular, the company has granted security in connection with the £700.0m retail loan facility with Canary Wharf Retail Funding Limited.

The current environment for the retail and hospitality sectors is challenging which is impacting on the company's rental income. Nevertheless, taking all of the group's retail properties charged as security for the retail loan, the group has collected sufficient rent to service the interest obligations under the loan for Q2 and Q3 2020. The board expects that this will continue to be the case in Q4 2020 and the early part of 2021 before there is a recovery in trading later in the year.

## HERON QUAYS INVESTMENTS (RT3) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

#### 2. ACCOUNTING POLICIES (CONTINUED)

The retail loan facility is subject to a minimum Interest Coverage Ratio (ICR) covenant of 175%. The loan also contains a maximum Loan to Value (LTV) covenant of 70%, above which a pay down of the loan is triggered, and an LTV covenant of 65%, above which there is a cash trap such that surplus rents are used to amortise the loan. On the basis of the last valuation addressed to the lenders in November 2019 the LTV ratio was 64.5%.

The lenders have waived covenant testing under the loan for two interest payment dates meaning that the first date on which the LTV covenant can be tested is November 2020. Given the ongoing impact of COVID-19 on valuations, it is likely that Canary Wharf Retail Funding Limited may need to request a waiver of covenant testing beyond November 2020 but there can be no assurance that such waiver will be agreed and in those circumstances a partial repayment of the loan would be required. This could take the form of a call under the parent company guarantee provided by Canary Wharf Group plc in relation to £100m of the loan and/or the trapping of surplus rents. Nevertheless, the prospect of future falls in the valuation of retail property assets may mean that these remedies will in themselves be insufficient to cure a breach of the 70% LTV covenant resulting in Canary Wharf Retail Funding Limited having insufficient funds to cover such repayment as it falls due. In those circumstances, the lenders may exercise their security over the shares and assets in the company.

The directors have concluded that these circumstances represent a material uncertainty which casts significant doubt upon the company's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business.

However, allowing for the parent company guarantee in relation to £100.0m of the retail loan and the expectation of reaching agreement with the lenders on the continuation of the loan covenant waiver, the directors have formed a judgement that at the time of approving the financial statements there is a reasonable expectation that the company will have adequate resources to continue its operations for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements for the year end 31 December 2019.

#### 2.3 Cash flow statement

The company has taken the exemption from preparing the cash flow statement under Section 1.12(b) as it is a member of a group where the parent of the group prepares publicly available consolidated accounts which are intended to give a true and fair view.

#### 2.4 Revenue

Rental income from operating leases is recognised in the Income Statement on a straight-line basis over the term of the lease. Lease incentives granted, including rent free periods, are recognised as an integral part of the net consideration for the use of the property and are therefore also recognised on the same straight line basis. Direct costs incurred in negotiating and arranging new leases are also amortised on the same straight line basis. Contingent rents, being those lease payments that are not fixed at the inception of a lease, for example turnover rents, are recorded in the periods in which they are earned.

## **HERON QUAYS INVESTMENTS (RT3) LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**

## **2. ACCOUNTING POLICIES (CONTINUED)**

### **2.5 Investment properties**

Investment properties, including land and buildings held for development and investment properties under construction, are measured initially at cost including related transaction costs. The finance costs associated with direct expenditure on properties under construction or undergoing refurbishment are capitalised.

Where a property interest is acquired under a lease the investment property and the associated lease liability are initially recognised at the lower of the fair value and the present value of the minimum lease payments including any initial premium. Lease payments are apportioned between the finance charge and a reduction in the outstanding obligation for future amounts payable. The total finance charge is allocated to accounting periods over the lease term so as to produce a constant periodic charge to the remaining balance of the obligation for each accounting period.

Investment properties are subsequently revalued, at each reporting date, to an amount comprising the fair value of the property interest plus the carrying value of the associated lease liability less separately identified accrued rent, amortised lease incentives and negotiation costs. The gain or loss on remeasurement is recognised in the income statement.

### **2.6 Investments**

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

Investments in unit trusts are stated at fair value. The fair value is calculated by reference to the company's share of the net assets of the investment, as adjusted for assets and liabilities which are not carried at fair value. The movement that relates to income earned from unit trusts and partnerships is taken to the income statement. The remaining fair value movement is recognised in other comprehensive income unless the carrying amount of the investment falls below its original cost, after which the deficit is recognised in the income statement.

Income from investments is recognised as the company becomes entitled to receive payment. Dividend income from investments in companies is recognised when received or irrevocably declared. Profits and losses in unit trusts are recognised on an accruals basis.

### **2.7 Financial instruments**

The directors have taken advantage of the exemption in paragraph 1.12c of FRS 102 allowing the company not to disclose the summary of financial instruments by the categories specified in paragraph 11.41.

#### **Trade and other receivables**

Loans receivable are recognised initially at the transaction price including transaction costs. Subsequent to initial recognition, loans receivable are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in the Income Statement over the period of the loan, using the effective interest method.

#### **Trade and other payables**

Trade and other creditors are stated at cost.

## HERON QUAYS INVESTMENTS (RT3) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

#### 2. ACCOUNTING POLICIES (CONTINUED)

##### **Borrowings**

Standard loans payable are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, loans payable are stated at amortised cost with any difference between the amount initially recognised and the redemption value being recognised in the Income Statement over the period of the loan, using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows (including all fees that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability.

##### **2.8 Taxation**

Current tax is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantively enacted at 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 as stated in financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in financial statements.

Unrelieved tax losses and other deferred tax assets are 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 using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of timing difference. Deferred tax relating to investment property is measured using the tax rates and allowances that apply to the sale of the asset.

Where items recognised in other comprehensive income or equity are chargeable to or deductible for tax purposes, the resulting current or deferred tax expense or income is presented in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expenses or income.

## **HERON QUAYS INVESTMENTS (RT3) LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**

#### **3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenue and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

The preparation of financial statements also requires use of judgements, apart from those involving estimation, that management makes in the process of applying the entity's accounting policies.

##### **Valuation of investment properties**

The company uses valuations performed by independent valuers as the fair value of its properties. The valuations are based upon assumptions including future rental income, anticipated void costs and the appropriate discount rate or yield. The valuers also make reference to market evidence of transaction prices for similar properties.

##### **Valuation of investments**

Investments in JPUTs are carried at fair value. The directors have valued the investment at the company's share of the JPUTs net asset value, as adjusted for the fair value of the JPUTs property interest.

##### **Valuation of intercompany debt**

In assessing the carrying value of non-standard loans, the company forecasts the present value of the most likely contractual cash flows of the underlying instrument. Estimates and judgments are made in the timing and quantum of the cash flows, the discount rate applied, as well as the impact of the underlying terms that can be triggered in the agreements to change the cash flows. These assessments are reviewed and amended annually.

For the year ended 31 December 2019, the financial statements of the company did not contain any significant items that required the application of judgements, apart from those involving estimation.

#### **4. AUDITOR'S REMUNERATION**

Auditor's remuneration of £6,000 (2018 - £6,000) for the audit of the company for the year has been borne by another group undertaking.

#### **5. EMPLOYEES**

The Company has no employees other than the directors, who did not receive any remuneration (2018 - £NIL).

# HERON QUAYS INVESTMENTS (RT3) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

### 6. INTEREST RECEIVABLE AND SIMILAR INCOME

	2019 £	2018 £
Interest receivable from group companies	374,273	371,387
	<u>374,273</u>	<u>371,387</u>

### 7. INTEREST PAYABLE AND SIMILAR CHARGES

	2019 £	2018 £
Financing costs	94,986	94,985
Loans from group undertakings	1,753,302	1,670,210
Other interest payable	4,258	1,832
	<u>1,852,546</u>	<u>1,767,027</u>

### 8. TAXATION

	2019 £	2018 £
Current tax on profits for the year	-	-
<b>TOTAL CURRENT TAX</b>	<u>-</u>	<u>-</u>
<b>DEFERRED TAX</b>		
Origination and reversal of timing differences	(13,150,142)	-
Changes to tax rates	-	(9,160,003)
<b>TOTAL DEFERRED TAX</b>	<u>(13,150,142)</u>	<u>(9,160,003)</u>
<b>TAXATION ON LOSS ON ORDINARY ACTIVITIES</b>	<u>(13,150,142)</u>	<u>(9,160,003)</u>



## HERON QUAYS INVESTMENTS (RT3) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

#### 8. TAXATION (CONTINUED)

##### FACTORS AFFECTING TAX CHARGE FOR THE YEAR

The tax assessed for the year is different to the standard rate of corporation tax in the UK of 19.0% (2018 - 19.0%). The differences are explained below:

	2019 £	2018 £
Loss on ordinary activities before tax	(14,362,869)	(8,947,865)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.0% (2018 - 19.0%)	(2,728,945)	(1,700,094)
<b>EFFECTS OF:</b>		
Deferred tax eliminated on conversion to a REIT	(14,697,218)	(8,455,857)
Expenses not deductible for tax purposes	1,585,166	146,818
Property rental business	(255,998)	(961,395)
Fair value movements not subject to tax	1,472,345	1,091,399
Interest restriction	-	(18,527)
Change in tax rates	1,547,076	1,077,647
Group relief	(72,568)	(339,994)
<b>TOTAL TAX CHARGE FOR THE YEAR</b>	<b>(13,150,142)</b>	<b>(9,160,003)</b>

In January 2019, the Finance Act 2019 was enacted. Capital profits arising from the investments in Jersey Property Unit Trusts, within the REIT environment, are no longer subject to tax. As a result, the deferred tax liability has been released.

##### FACTORS THAT MAY AFFECT FUTURE TAX CHARGES

Enacted in the Finance Act (No.2) 2015 is a reduction in the corporation tax rate to 17.0% on 1 April 2020.

Following the year end, in the 2020 Budget, HM Treasury announced their intention not to cut corporation tax beyond 19%.

The company is a member of a REIT headed by Stork Holdings Limited. As a consequence all qualifying property rental business is exempt from corporation tax. Only income and expenses relating to non-qualifying activities will continue to be taxable.

# HERON QUAYS INVESTMENTS (RT3) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

### 9. FIXED ASSET INVESTMENTS

	Investment in Jersey Property Unit Trust £
<b>COST OR VALUATION</b>	
At 1 January 2019	160,684,439
Share of capital losses	(14,662,081)
At 31 December 2019	<u>146,022,358</u>

The share of capital losses relates to the revaluation of an investment property recognised in the income statement of the Jersey Property Unit Trust.

At 31 December 2019 and 31 December 2018 the company held 99.7% of the units in the Jubilee Place (Retail) Unit Trust.

	2019 £	2018 £
Cost of interest in Jersey Property Unit Trust	83,330,659	83,330,659
Share of accumulated capital profits	62,691,699	77,353,779
	<u>146,022,358</u>	<u>160,684,438</u>

During the year the company recorded distributions as follows:

	2019 £	2018 £
Accrued distributions brought forward	(1,679,472)	(1,324,151)
Distributions received	5,942,693	5,975,967
Accrued distributions carried forward	2,963,093	1,679,472
Share of capital (losses)/profits	(14,662,081)	(9,575,236)
<b>Income from Jersey Property Unit Trust</b>	<u>(7,435,767)</u>	<u>(3,243,948)</u>

In accordance with Section 400 of the Companies Act 2006, financial information is only presented in these financial statements about the company as an individual undertaking and not about its group because the company and its investment are included in the consolidated financial statements of a larger group (Note 19).

# HERON QUAYS INVESTMENTS (RT3) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

### 10. INVESTMENT PROPERTY

	Freehold investment property £
<b>VALUATION</b>	
At 1 January 2019	73,877,941
Revaluation	(7,749,186)
<b>AT 31 DECEMBER 2019</b>	<b>66,128,755</b>

At 31 December 2019, the property was valued externally by Cushman & Wakefield and Savills, qualified valuers with recent experience in office properties at Canary Wharf. The fair value was determined in accordance with the Appraisal and Valuation Manual published by the Royal Institution of Chartered Surveyors, using:

- Discounted cash flows based on inputs provided by the company (current rents, terms and conditions of lease agreements) and assumptions and valuation models adopted by the valuers (estimated rental values, terminal values and discount rates).

- Yield methodology based on inputs provided by the company (current rents) and assumptions and valuation models adopted by the valuers (estimated rental values and market capitalisation rates).

The resulting valuations are cross checked against the initial yields and the fair market values per square foot derived from actual market transactions.

No allowance was made for any expenses of realisation nor for any taxation which might arise in the event of disposal.

If the investment properties had been accounted for under the historic cost accounting rules, the properties would have been measured as follows:

	2019 £	2018 £
Historic cost	22,285,016	22,285,016

The fair value has been allocated to the following balance sheet items:

	2019 £	2018 £
Leasehold properties	66,128,755	73,877,941
Negotiation costs attributable from fellow subsidiaries	821,245	647,059
<b>Fair value</b>	<b>66,950,000</b>	<b>74,525,000</b>

The property interest is let to HQCB Properties (RT3) Limited until March 2997. Rent receivable equates to 99.9% of the rent earned by HQCB Properties (RT3) Limited regarding parking and low level space less deductible legal expenses.

# HERON QUAYS INVESTMENTS (RT3) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

### 11. DEBTORS

	2019 £	2018 £
<b>DUE AFTER MORE THAN ONE YEAR</b>		
Negotiation costs attributable from fellow subsidiaries	821,245	647,059
	<u>821,245</u>	<u>647,059</u>
	2019 £	2018 £
<b>DUE WITHIN ONE YEAR</b>		
Amounts owed by group undertakings	1	1
Loan to fellow subsidiary undertaking	19,117,701	11,190,056
Other debtors	161,160	-
Prepayments and accrued income	2,963,093	1,679,473
	<u>22,241,955</u>	<u>12,869,530</u>

The loan to a fellow subsidiary undertaking carries interest at a rate linked to LIBOR and is repayable on demand.

Other amounts owed by group undertakings are interest free and repayable on demand.

### 12. CREDITORS: Amounts falling due within one year

	2019 £	2018 £
Amounts owed to group undertakings	30,818,639	29,015,355
Accrued interest on loan due after more than one year	331,887	333,581
Other taxation and social security	-	402,621
Accruals and deferred income	14,239	9,981
	<u>31,164,765</u>	<u>29,761,538</u>

Amounts owed to group undertakings are interest free and repayable on demand.

# HERON QUAYS INVESTMENTS (RT3) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

### 13. CREDITORS: Amounts falling due after more than one year

	2019 £	2018 £
Amounts owed to group undertakings	59,707,755	59,612,769
	<u>59,707,755</u>	<u>59,612,769</u>

The loan outstanding carries interest at LIBOR plus 2.1%, and is repayable in November 2021.

At 31 December 2019, there were capitalised financing costs of £175,400 (2018 - £270,386) offset against the loan.

### 14. DEFERRED TAXATION

	2019 £
At beginning of year	(13,150,142)
Credited to profit or loss	13,150,142
<b>AT END OF YEAR</b>	<u>-</u>

The deferred taxation balance is made up as follows:

	2019 £	2018 £
Share of accumulated capital profits	-	(13,150,142)
	<u>-</u>	<u>(13,150,142)</u>

In January 2019, the Finance Act 2019 was enacted. Capital profits arising from the investments in Jersey Property Unit Trusts, within the REIT environment, are no longer subject to tax. As a result, the deferred tax liability has been released.

## HERON QUAYS INVESTMENTS (RT3) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

#### 15. SHARE CAPITAL

	2019 £	2018 £
Allotted, called up and fully paid		
1 (2018 - 1) Ordinary share of £1.00	1	1

#### 16. RESERVES

The distributable reserves of the company differ from its retained earnings as follows:

	2019 £	2018 £
Retained earnings	144,341,792	145,554,519
Revaluation of investment properties	(43,843,739)	(51,592,925)
Share of accumulated capital profits	(72,456,699)	(87,118,780)
Deferred tax on share of accumulated capital profits	-	13,150,142
<b>Distributable reserves</b>	<b>28,041,354</b>	<b>19,992,956</b>

The share of capital profits relates to the revaluation of an investment property recognised in the income statement of the Jersey Property Unit Trust. The company recognises its share of this unrealised profit in the carrying value of its investment.

#### 17. OTHER FINANCIAL COMMITMENTS

As at 31 December 2019 and 31 December 2018 the company had given fixed and floating charges over substantially all its assets to secure the commitments of certain other group undertakings.

#### 18. POST BALANCE SHEET EVENTS

Since 31 December 2019 the UK economy has been significantly impacted by the Covid-19 virus which has caused widespread disruption and economic uncertainty. This is considered to be a non-adjusting post balance sheet event and accordingly the valuation of assets and liabilities at the balance sheet date have not been adjusted for the subsequent uncertainty caused by these events.

Distributions from Jubilee Place (Retail) Unit Trust will be lower in 2020 as the Unit Trust's income is dependent on the rental income earned by HQCB Properties (RT3) Limited. Income earned directly from HQCB Properties (RT3) Limited will also be lower. As a result of the UK wide lockdown at the end of March 2020, the company's retail tenants were required to close and many tenants have outstanding rent from quarterly payments due in April and July. April rents received from the company's tenants amount to £683,670 or 29% of the usual rent expected for this period. £648,120 was received in July, being 27% of the normal rent.

Notwithstanding the drop in income, having assessed the resources at the disposal of the company, the directors have a reasonable expectation that the company will have adequate resources to continue its operation for the foreseeable future.

## **HERON QUAYS INVESTMENTS (RT3) LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**

#### **19. CONTROLLING PARTY**

The company's immediate parent undertaking is Canary Wharf Investments Limited.

As at 31 December 2019, the smallest group of which the company is a member and for which group financial statements are drawn up is the consolidated financial statements of Canary Wharf Group Investment Holdings plc. Copies of the financial statements may be obtained from the Company Secretary, One Canada Square, Canary Wharf, London E14 5AB.

The largest group of which the company is a member for which group financial statements are drawn up is the consolidated financial statements of Stork HoldCo LP, an entity registered in Bermuda and the ultimate parent undertaking and controlling party. Stork HoldCo LP is registered at 73 Front Street, 5th Floor, Hamilton HM12, Bermuda.

Stork HoldCo LP is controlled as to 50% by Brookfield Property Partners LP and as to 50% by Qatar Investment Authority.

The directors have taken advantage of the exemption in paragraph 33.1A of FRS 102 allowing the company not to disclose related party transactions with respect to other wholly-owned group companies.