KSEYE Capital No.2 Limited

Directors' Report and Financial Statements

Year Ended

31 March 2020

Company Number 10149776

KSEYE Capital No.2 Limited

Company Information

Directors	J Khagram N Khagram
Registered number	10149776
Registered office	1 Kenyngton Place Harrow Middlesex HA3 0DW
Independent auditors	BDO LLP Statutory Auditor 55 Baker Street London W1U 7EU

KSEYE Capital No.2 Limited

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KSEYE Capital No.2 Limited

Directors' Report
For the Year Ended 31 March 2020

The directors present their report and the financial statements for the year ended 31 March 2020.

Principal activity

The Company's core business is that of specialist lending, with a focus on providing real estate investors with short term loans secured against properties in England and Wales.

Business review

The Company's lending activities are funded by the issuance of bonds on The International Stock Exchange. In July 2019, drawdowns under the bond facility were increased to £25m, however £10m was later repaid, with current drawdowns of £15m at year end.

Highlights of the year include:

- Bond facility extended by 18 months in July 2019;
- Loan book of £16.4m at year end;
- Turnover of £2.6m; and
- Profit before tax of £1.2m.

Despite uncertainty due to Covid-19 and other market factors, demand for borrowing continues to rise. With its diligent lending practices, KSEYE remains well-placed to provide funding solutions to property professionals whilst monitoring credit and market risks.

Directors

The directors who served during the year were:

J Khagram
N Khagram

Disclosure of information to auditors

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 auditors are 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 auditors are aware of that information.

Auditors

The auditors, BDO LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

Small companies note

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

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

J Khagram
Director

Date: 1st October 2020

Directors' Responsibilities Statement
For the Year Ended 31 March 2020

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;
- 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.

Independent Auditors' Report to the Members of KSEYE Capital No.2 Limited

Opinion

We have audited the financial statements of KSEYE Capital No.2 Limited (“the Company”) for the year ended 31 March 2020 which comprise The Statement of Comprehensive Income, The Statement of Financial Position, The Statement Of Changes In Equity and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company’s affairs as at 31 March 2020 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 Directors report and financial statements, other than the financial statements and our auditor’s report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Directors' report has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the 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 financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the Directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemptions in preparing the Directors' report and from the requirement to prepare a Strategic report.

Responsibilities of directors

As explained more fully in the Directors' 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: 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.

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

2 October 2020

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

KSEYE Capital No.2 Limited

Statement of Comprehensive Income
For the Year Ended 31 March 2020

	Note	2020 £	2019 £
Turnover	4	**2,647,388**	3,025,432
Cost of sales		**(1,341,933)**	(1,556,016)
Gross profit		**1,305,455**	1,469,416
Administrative expenses		**(140,511)**	(65,684)
Operating profit		**1,164,944**	1,403,732
Tax on profit	7	**(206,899)**	(278,709)
Profit for the financial year		**958,045**	1,125,023

There was no other comprehensive income for 2020 (2019:£NIL).

The notes on pages 10 to 17 form part of these financial statements.

KSEYE Capital No.2 Limited
Registered number:10149776

Statement of Financial Position
As at 31 March 2020

	Note		2020 £		2019 £
Current assets					
Debtors: amounts falling due within one year	9	**16,410,946**		19,462,469	
Cash at bank and in hand	10	**2,504,521**		1,479,873	
		18,915,467		20,942,342	
Creditors: amounts falling due within one year	11	**(17,107,192)**		(20,092,112)	
Net current assets			**1,808,275**		850,230
Total assets less current liabilities			**1,808,275**		850,230
Net assets			**1,808,275**		850,230
Capital and reserves					
Called up share capital	13		**1**		1
Retained earnings			**1,808,274**		850,229
			1,808,275		850,230

The financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies regime and in accordance with the provisions of FRS 102 Section 1A - small entities.

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:

J Khagram
Director

N Khagram
Director

Date: 1st October 2020

The notes on pages 10 to 17 form part of these financial statements.

KSEYE Capital No.2 Limited

Statement of Changes in Equity
For the Year Ended 31 March 2020

	Called up share capital	Profit and loss account	Total equity
	£	£	£
At 1 April 2018	**1**	**325,206**	**325,207**
Comprehensive income for the year			
Profit for the year	**-**	**1,125,023**	**1,125,023**
Contributions by and distributions to owners	**-**	**1,125,023**	**1,125,023**
Dividends	**-**	**(600,000)**	**(600,000)**
At 1 April 2019	**1**	**850,229**	**850,230**
Comprehensive income for the year			
Profit for the year	**-**	**958,045**	**958,045**
At 31 March 2020	**1**	**1,808,274**	**1,808,275**

The notes on pages 10 to 17 form part of these financial statements.

1. General information

KSEYE Capital No.2 Limited is a private company, limited by shares, incorporated in England and Wales, registration number 10149776. The address of its registered office and principal place of business is 1 Kenyngton Place, Harrow, Middlesex, United Kingdom, HA3 0DW.

The principal activity of the Company during the year was that of providing bridging finance secured against property.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Section 1A of Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

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 following principal accounting policies have been applied:

2.2 Turnover

Turnover represents interest income accrued on loans from loan issue date using the effective interest method. The effective interest rate method spreads the interest income over the expected life of each instrument.

2.3 Expenses

Expenses including interest are recognised as an expense in the statement of comprehensive income in the period in which they are incurred (on an accruals basis).

2.4 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

2.5 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

2. Accounting policies (continued)

2.6 Financial instruments

Financial instruments are recognised in the Statement of Financial Position when the Company becomes party to the contractual provisions of the instrument. Financial instruments are initially measured at transaction price unless the arrangement constitutes a financing transaction which includes transaction costs for financial instruments not subsequently measured at fair value. Subsequent to initial recognition, they are measured as set out below. A financing transaction is
1st measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Classification

Financial instruments are classified as either ‘basic’ or ‘other’ in accordance with Chapter 11 of FRS102.

Subsequent measurement

Loans and receivables are measured at amortised cost, using the effective interest method. Trade debtors and trade payables are recognised at the undiscounted amount owed by the customer or to the supplier, which is normally the invoice amount.

Derecognition

Financial assets are derecognised when the contractual rights to the cashflows from the asset expire. Financial liabilities are derecognised only once the liability has been extinguished through discharge, cancellation or expiry.

2.7 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

2.8 Finance costs

Finance costs are charged to the Statement of Comprehensive Income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

2.9 Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting.

2. Accounting policies (continued)

2.10 Taxation

Tax is recognised in the Statement of Comprehensive Income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company operates and generates income.

3. Judgements in applying accounting policies and key sources of estimation uncertainty

In the application of the Company's accounting policies, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Loan provisioning and impairment is the area which gives rise to judgment and estimates. On the date of approval of the financial statements, there are no indications to imply that material changes to the fundamental assumptions and estimates are necessary.

4. Turnover

All turnover arose within the United Kingdom.

5. Auditors' remuneration

	2020 £	2019 £
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	**6,775**	5,775

6. Employees

The average monthly number of employees, including directors, during the year was 2 (2019 - 2).

7. Taxation

	2020 £	2019 £
Corporation tax		
Current tax on profits for the year	**218,899**	278,709
Adjustments in respect of previous periods	**(12,000)**	-
	206,899	278,709
Total current tax	**206,899**	278,709

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2019 - higher than) the standard rate of corporation tax in the UK of 19% (2019 - 19%). The differences are explained below:

	2020 £	2019 £
Profit on ordinary activities before tax	**1,164,944**	1,403,732
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2019 - 19%)	**221,339**	266,709
Effects of:		
Group relief claimed	**(2,440)**	-
Adjustments to tax charge in respect of prior periods	**(12,000)**	-
Unexplained difference	**-**	12,000
Total tax charge for the year	**206,899**	278,709

8. Dividends

	2020 £	2019 £
Dividends paid on equity capital	**-**	600,000
	-	600,000

9. Debtors

	2020 £	2019 £
Trade debtors	**16,410,945**	19,428,030
Amounts owed by group undertakings	**1**	34,439
	16,410,946	19,462,469

10. Cash and cash equivalents

	2020 £	2019 £
Cash at bank and in hand	**2,504,521**	1,479,873
	2,504,521	1,479,873

11. Creditors: Amounts falling due within one year

	2020 £	2019 £
Amounts owed to group undertakings	**1,082,462**	7,675
Corporation tax	**481,998**	275,099
Other creditors	**15,165,737**	19,334,928
Accruals and deferred income	**376,995**	474,410
	17,107,192	20,092,112

The listed bond of £15,000,000 above is due for repayment on 29 January 2021, interest is charged at LIBOR + 6% per annum, and security is given on all assets and rights of the issuer.

Amount under group undertakings is an interest free loan of £1,082,462 from KSEYE Capital No.1 Ltd.

12. Financial instruments

	2020 £	2019 £
Financial assets		
Financial assets measured at amortised cost	**18,915,467**	20,942,342
Financial liabilities		
Financial liabilities measured at amortised cost	**16,248,199**	19,342,603

Financial assets measured at amortised cost comprise cash, trade debtors and amounts owed to group undertakings.

Financial liabilities measured at amortised cost comprise amounts owed by group undertakings, other creditors and accruals.

The financial assets of £18,915,467 (2019: £20,942,342) generated interest income of £2,647,388 (2019: £3,025,432).

The financial liabilities of £16,248,199 (2019: £19,342,603) incurred an interest expense of £1,341,933 (2019: £1,525,722).

13. Share capital

	2020 £	2019 £
Allotted, called up and fully paid		
1 (2019 - 1) Ordinary share of £1.00	**1**	1

14. Financial and Capital risk management

The Company's business is exposed to a variety of financial risks. The financial risks are mainly categorised as credit risk, liquidity risk and market risk (including interest rate risk). The objective of the Company's risk management framework is to identify and assess the risks facing the Company and to minimise the potential adverse effects of these risks on the Company's financial performance. Financial risk management is overseen by the Board of Directors.

(a) Credit risk

By virtue of the bridge lending trade, this is the risk that one party to a financial instrument ("the borrower") will cause a financial loss for the other party ("the lender") by failing to discharge a loan obligation in line with the terms stipulated in the loan agreements.

The Company mitigates the risk primarily by securing charges on properties that underpin the loan capital insofar that the balance is partially or fully protected by the property valuations. Such valuations are sought from independent Chartered Surveyors.

Standard operation of trade is to charge interest in advance for multiple months and monthly thereafter. Respective amounts are determined on an individual loan basis subject to contractual particulars and borrower credibility.

(b) Liquidity risk

Liquidity risk is the risk that the Company will have insufficient liquid resources available to meet its financial obligations as they fall due. The risk of not being able to meet liabilities is primarily in relation to the bonds issued with the maturity date of 29 January 2021. Interest payments of LIBOR + 6% per annum paid quarterly also apply and are relevant for liquidity risk. Furthermore, participating funder agreements require the Company to service lending at pre-agreed rates however payments are directly correlated with the loan term.

The term structure of the loans issued are inherently varied, therefore realisation of funds and loan interest being serviced monthly on aggregate help meet present obligations and partially mitigates this risk during normal trade.

Maturity analysis

	2020	2019
	£	£
Financial liabilities		
Due in less than 1 year (note 12)	**16,248,199**	19,342,603
	16,248,199	19,342,603

(c) Market risk including interest risk

This is mitigated by the nature of the interest being charged and paid as rates are pre-determined by the lender and borrower from inception of the loan and are therefore fixed. Interest income from borrower is fixed and interest expense is fixed but linked to LIBOR. The 3 months LIBOR is followed as Bond interest is paid quarterly. Rates are discretionary and fixed with all arrangements being bespoke so exposure is minimised. Due to the fixed nature of interest income and expense no sensitivity analysis is required.

15.1 Capital risk management

Ultimately, the capital structure is to be optimal and maintain sound levels of working capital for the continuity of trade, organic growth and therefore, continue as a going concern. The DALMA SICAV funding sets out covenants that determine the usage of the capital facility and these may not be breached. Periodic reporting to those concerned at DALMA takes place to ensure usage of this facility is utilised in accordance with the agreement.

The capital structure of the Company consists of equity attributable to equity holders of the Company, comprising issued capital, reserves and retained earnings. The Company also considers the long terms bonds issued as capital.

This is mitigated by the nature of the interest being charged and paid as rates are pre-determined by the lender and borrower from inception of the loan and are therefore fixed. Rates are not linked or driven by the market, but more industry and competitor rates. Rates are discretionary and fixed with all arrangements being bespoke so exposure is minimised. Due to the fixed nature of interest income and expense no sensitivity analysis is required.

	2020	**2019**
	£	**£**
Share capital, reserves, retained earnings and long term bonds		
Share capital	**1**	1
Retained earnings	**1,808,274**	850,229
Bonds	**15,165,737**	19,334,928
	16,974,012	20,185,158

15. Related party transactions

The Company has taken the exemption available under FRS102 section 1A to not disclose related party transactions with other group companies.

16. Controlling party

The immediate parent company of the company is KSEYE Capital Holdings Limited.

The ultimate parent company is KSEYE Group Limited, a company registered in England and Wales, registration number 10147461. This is the largest underaking for which the Company is a member and for which group financial statements are prepared. The address of its registered office is 1 Kenyngton Place, Harrow, Middlesex, HA3 0DW. Consolidated financial statements can also be obtained from this address.

There is no ultimate controlling party.