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Fairholme Estates (Holdings) Limited

Report and Financial Statements

31 August 2013



Fairholme Estates (Holdings) Limited

Directors

S S Potel
O H Hermes
J R Garnett
G Potel
D Potel
M D Paisner

Secretary

O H Hermes

Auditors

Ernst & Young LLP
1 More London Place
London SE1 2AF

Bankers

HSBC Bank plc
95 Gracechurch Street
London EC3V 0DQ

Solicitors

Berwin Leighton Paisner
Adelaide House
London Bridge
London EC4R 9HA

Registered Office

47 St John's Wood High Street
St John's Wood
London NW8 7NJ

Registered No 830036

Directors' report

The directors present their report and financial statements for the year ended 31 August 2013

Results and dividends

The profit for the year after taxation amounted to £3,010,105 (2012 – profit of £2,534,787) Interim dividends of £1,022,500 (2012 – £nil) were paid during the year The directors do not recommend a final dividend (2012 – £nil)

Principal activity and review of the business

The company's principal activity continued to be that of property investment

The company's key performance indicators during the year were as follows

	2013	2012
	£	£
Turnover	5,061,791	4,964,566
Operating profit	4,441,151	4,411,787
Profit on ordinary activities before tax	3,698,836	3,576,852
Shareholders' funds	<u>84,781,816</u>	<u>71,125,187</u>

Turnover has increased as a result of the rental increases during the year Operating profit and profit on ordinary activities before tax have also correspondingly increased The rise in Shareholders' funds is as a result of the profit and revaluation of investment properties during the year

Future developments

The directors aim to continue to deliver stable returns

In the post balance sheet period the company disposed of a property for a consideration of £11,900,000 realising a profit before tax of approximately £1,600,000

Principal risks and uncertainties

As a property investment company, the balance sheet value is susceptible to volatility in property market values The company manages this risk by maintaining a low gearing ratio

The company has entered into interest rate swaps to protect against the risk of adverse changes in interest rates

The directors have an expectation that contractual rental cash inflows will be more than sufficient to cover liabilities as they fall due for the foreseeable future The company also maintains a low gearing ratio and has significant headroom in its loan covenants As a result the directors have prepared the financial statements on a going concern basis

Directors' report

Fixed assets

The company's freehold properties were valued at 31 August 2013 by an external valuer, Mr Stuart Sandler FRICS of Vail Williams LLP. The valuations were in accordance with the requirements of the RICS valuation standards, 7th edition. The valuation of each property was on the basis of market value subject to the assumption for investment properties that the properties would be sold subject to any existing leases.

The valuer's opinion of market value was primarily derived using comparable market transactions where appropriate on arm's length terms.

Directors

The directors who served the company during the year were as follows:

S S Potel
O H Hermes
G Potel
D Potel
M D Paisner
J R Garnett

Political and charitable contributions

During the year, the company made charitable donations totalling £40,000 (2012 – £50,000) to The Potel Charitable Trust.

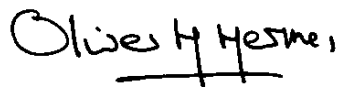
Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

By order of the Board



O H Hermes
Secretary

29 November 2013

Statement of directors' responsibilities

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 period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Independent auditors' report

to the members of Fairholme Estates (Holdings) Limited

We have audited the financial statements of Fairholme Estates (Holdings) Limited for the year ended 31 August 2013 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Note of Historical Cost Profits and Losses, the Balance Sheet, the Statement of Cash Flows and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the directors' report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 August 2013 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.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditors' report

to the members of Fairholme Estates (Holdings) Limited

Matters on which we are required to report by exception

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

Ernst & Young LLP

Matthew Williams (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

29 November 2013

Profit and loss account

for the year ended 31 August 2013

	Notes	2013 £	2012 £
Turnover	2	5,061,791	4,964,566
Administrative expenses		<u>(620,640)</u>	<u>(552,779)</u>
Operating profit	3	4,441,151	4,411,787
Loss on property disposals		—	(27,600)
Bank interest receivable		7,855	4,835
Interest payable and similar charges	6	<u>(750,170)</u>	<u>(812,170)</u>
Profit on ordinary activities before taxation		3,698,836	3,576,852
Tax	7	<u>(688,731)</u>	<u>(1,042,065)</u>
Profit for the financial year	16	<u>3,010,105</u>	<u>2,534,787</u>

All amounts relate to continuing activities

Statement of total recognised gains and losses

for the year ended 31 August 2013

	2013 £	2012 £
Profit for the year	3,010,105	2,534,787
Unrealised surplus on revaluation of investment properties	11,669,024	1,794,055
Total recognised gains and losses for the year	<u>14,679,129</u>	<u>4,328,842</u>

Note of historical cost profits and losses

for the year ended 31 August 2013

	2013	2012
	£	£
Reported profit on ordinary activities before taxation	3,698,836	3,576,852
Realisation of property revaluation profit of previous years	–	1,128,474
Historical cost profit on ordinary activities before taxation	<u>3,698,836</u>	<u>4,705,326</u>
Historical cost profit for the year after taxation	<u>3,010,105</u>	<u>3,663,261</u>

Balance sheet

at 31 August 2013

	Notes	2013 £	2012 £
Fixed assets			
Tangible assets	9	98,968,260	86,837,300
Investments	10	<u>1,651</u>	<u>1,651</u>
		98,969,911	86,838,951
Current assets			
Debtors	11	134,142	276,871
Cash at bank and in hand		<u>3,222,917</u>	<u>2,815,140</u>
		3,357,059	3,092,011
Creditors amounts falling due within one year			
Loans	13	(1,130,405)	(1,130,405)
Bank overdraft		—	(25,410)
Trade and other creditors	12	(995,425)	(1,516,700)
Corporation tax		<u>(385,000)</u>	<u>(500,000)</u>
		2,510,830	3,172,515
Net current assets		<u>846,229</u>	<u>(80,504)</u>
Total assets less current liabilities		<u>99,816,140</u>	<u>86,758,447</u>
Creditors amounts falling due after more than one year			
Amounts owed to subsidiary undertakings	18	(1,649)	(1,649)
Loans	13	<u>(14,041,467)</u>	<u>(14,521,872)</u>
		(14,043,116)	(14,523,521)
Provisions for liabilities			
Deferred tax	14	(991,208)	(1,109,739)
Total assets less liabilities		<u>84,781,816</u>	<u>71,125,187</u>
Capital and reserves			
Called up share capital	15	409,000	409,000
Share premium account	16	6,148	6,148
Revaluation reserve	16	38,624,069	26,955,045
Profit and loss account	16	45,742,599	43,754,994
Shareholders' funds	16	<u>84,781,816</u>	<u>71,125,187</u>

S S Potel
Director

29 November 2013

Statement of cash flows

for the year ended 31 August 2013

	Notes	2013 £	2012 £
Net cash inflow from operating activities	17(a)	4,566,095	4,287,953
Returns on investments and servicing of finance			
Interest received		7,856	4,835
Interest paid		(750,170)	(828,251)
		(742,314)	(823,416)
Taxation			
Corporation tax paid		(922,262)	(1,198,568)
Capital expenditure and financial investment			
Payments to acquire investment properties		(957,823)	–
Receipts from sale of investment properties		–	1,222,401
Payments to acquire other tangible fixed assets		(7,603)	(46,867)
		(965,426)	1,175,534
Equity dividends paid		(1,022,500)	–
Net cash inflow before financing		913,593	3,441,503
Financing			
New long term loans		885,000	–
Repayment of long term loans		(1,365,406)	(1,635,406)
		(480,406)	(1,635,406)
Increase/ (Decrease) in cash	17(b)	433,187	1,806,097

Reconciliation of net cash flow to movement in net debt

	Notes	2013 £	2012 £
Increase/(decrease) in cash		433,187	1,806,097
Cash outflow/inflow from financing		480,406	1,635,406
Movement in net debt		913,593	3,441,503
Net debt at 1 September	17(b)	(12,862,546)	(16,304,049)
Net debt at 31 August	17(b)	(11,948,954)	(12,862,546)

Notes to the financial statements

at 31 August 2013

1. Accounting policies

Basis of preparation

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards

Group financial statements

The company has taken advantage of the exemption under section 400 of the Companies Act 2006 not to prepare group financial statements as it is defined as a small group. As a result these financial statements present information about the company as an individual undertaking and exclude its immaterial subsidiaries

Tangible fixed assets

The cost of tangible fixed assets, other than investment properties, is depreciated by equal annual instalments over the estimated useful lives of the assets as follows

Plant	–	10 years
Office equipment	–	5 to 20 years

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable

Investments

Investment properties are accounted for in accordance with SSAP 19, as follows

- Investment properties are revalued annually and the aggregate surplus or deficit is transferred to a revaluation reserve. Where the revaluation reserve is insufficient to cover a permanent diminution in value on a property-by-property basis, the amount by which the deficit exceeds the amount in the investment revaluation reserve is charged to the profit and loss account, and
- No depreciation is provided in respect of freehold investment properties

Although the Companies Act would normally require the systematic annual depreciation of fixed assets, the directors believe that this policy of not providing depreciation is necessary in order for the financial statements to give a true and fair view, since the current value of investment properties, and changes in that current value, are of prime importance rather than a calculation of systematic annual depreciation. Depreciation is only one of the many factors reflected in the annual valuation, and the amount which might otherwise have been shown cannot be separately identified or quantified

Investment in subsidiaries

The carrying values of investments are initially recorded at cost and are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable

Notes to the financial statements

at 31 August 2013

1. Accounting policies (continued)

Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more, tax, with the following exceptions

- Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, or gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold
- Deferred tax assets are recognised only to the extent that the directors consider that it is 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 on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

Pensions

Contributions to defined contribution schemes are recognised in the profit and loss account in the period in which they become payable

2. Turnover

Turnover, which all arises in the United Kingdom, represents rental income. Rental income is recognised on a straight line basis over the period of the rental agreement.

3. Operating profit

This is stated after charging/(crediting)

	2013 £	2012 £
Auditors' remuneration – audit	24,000	23,300
– taxation	9,670	9,500
Depreciation of tangible fixed assets	<u>1,643</u>	<u>3,422</u>

4. Directors' remuneration

	2013 £	2012 £
Remuneration	<u>109,170</u>	<u>108,945</u>
Company contributions paid to defined contribution pension schemes	<u>53,600</u>	<u>23,600</u>

The company makes contributions to a personal money purchase pension scheme for the benefit of one of the directors

Notes to the financial statements

at 31 August 2013

5. Staff costs

	2013 £	2012 £
Wages and salaries	148,453	147,628
Social security costs	15,265	15,389
Contributions paid to pension schemes	53,600	23,600
	<u>217,318</u>	<u>186,617</u>

The average monthly number of employees during the year was made up as follows

	No	No
Management	6	6
General staff	1	1
	<u>7</u>	<u>7</u>

6. Interest payable and similar charges

	2013 £	2012 £
On loans repayable within 5 years and bank advances	339,978	356,535
Other loans	410,192	455,635
	<u>750,170</u>	<u>812,170</u>

7. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows

	2013 £	2012 £
Current tax		
UK corporation tax on the profit for the year	825,000	1,099,113
Adjustments in respect of previous years	(17,738)	(545)
Total current tax (note 7(b))	<u>807,262</u>	<u>1,098,568</u>
Deferred tax		
Origination and reversal of timing differences (note 14)	(146,675)	(64,150)
Effect of tax rate changes (note 14)	28,144	7,647
Total deferred tax	<u>(118,531)</u>	<u>(56,503)</u>
Tax on profit on ordinary activities	<u>688,731</u>	<u>1,042,065</u>

Notes to the financial statements

at 31 August 2013

7. Tax (continued)

(b) Factors affecting the current tax charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 23.58% (2012 – 25.16%). The differences are explained below

	2013 £	2012 £
Profit on ordinary activities before tax	3,698,836	3,576,852
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 23.58% (2012 – 25.16%)	872,308	900,077
<i>Effects of</i>		
Expenses not deductible for tax purposes	610	17,413
Capital allowances in excess of depreciation	(47,918)	(40,258)
Adjustments in respect of previous years	(17,738)	(545)
Chargeable capital gain	–	221,881
Current tax for the year (note 7(a))	807,262	1,098,568

(c) Factors that may affect future tax charges

Finance Act 2013 included legislation to reduce the main rate of corporation tax from 23% to 21% from 1 April 2014 and to 20% from 1 April 2015. As these changes were enacted in July 2013 prior to the balance sheet date, the company's deferred tax balances have been recognised based on these future tax rates.

In accordance with the company's accounting policy, no deferred tax liability has been recognised in respect of revaluing investment property to its market value where, at the balance sheet date, the company has not entered into a binding sale agreement to dispose of the properties concerned. The total amount of unrecognised deferred tax at the year end in respect of revaluation gains is approximately £4.85 million (2012 – £3.38m).

8. Dividends

	2013 £	2012 £
Declared and paid during the year		
Dividend of 250 pence (2012 – nil pence) per share	1,022,500	–

Notes to the financial statements

at 31 August 2013

9. Tangible fixed assets

	<i>Freehold investment properties</i> £	<i>Office equipment</i> £	<i>Total</i> £
Cost or valuation			
At 1 September 2012	86,835,000	34,885	86,869,885
Additions	455,976	7,603	463,579
Disposals	–	(1,996)	(1,996)
Revaluation during the year	11,669,024	–	11,669,024
At 31 August 2013	<u>98,960,000</u>	<u>40,492</u>	<u>99,000,492</u>
Depreciation			
At 1 September 2012	–	32,585	32,585
Charge for the year	–	1,643	1,643
Disposals	–	(1,996)	(1,996)
At 31 August 2013	<u>–</u>	<u>32,232</u>	<u>32,232</u>
Net book value			
At 31 August 2013	<u>98,960,000</u>	<u>8,260</u>	<u>98,968,260</u>
At 1 September 2012	<u>86,835,000</u>	<u>2,300</u>	<u>86,837,300</u>

The company's freehold properties were valued at 31 August 2013 by an external valuer, Mr Stuart Sandler FRICS of Vail Williams LLP. The valuations were in accordance with the requirements of the RICS valuation standards, 7th edition. The valuation of each property was on the basis of market value including the assumption for investment properties that the properties would be sold subject to any existing leases.

The valuer's opinion of market value was primarily derived using comparable market transactions where appropriate on arm's length terms.

No provision has been made for taxation on capital gains which would arise if the company were to dispose of investment properties at their book values (note 7(c)).

In respect of investment properties, which are stated at market value, the historical cost to the company of the properties is as follows:

	2013 £	2012 £
Properties held by the company	<u>60,335,931</u>	<u>59,879,955</u>

Notes to the financial statements

at 31 August 2013

10. Investments

	<i>Subsidiary undertakings</i> £
Cost	
At 1 September 2012 and 31 August 2013	19,649
Provision	
At 1 September 2012 and 31 August 2013	(17,998)
Net book value	
At 1 September 2012 and 31 August 2013	1,651

The company owns 100% of the issued Ordinary and Preference share capital of

<i>Subsidiary undertakings</i>	<i>Incorporated</i>	<i>Nature of business</i>	<i>Retained capital and reserves</i>	<i>Result for the year</i>
Fairholme Estates Limited	England and Wales	Dormant	1	—
Fairholme Management Limited	England and Wales	Dormant	1,650	—

11. Debtors

	<i>2013</i> £	<i>2012</i> £
Trade debtors	—	3,458
Other debtors	15,025	8,911
Prepayments and accrued income	119,117	264,502
	<u>134,142</u>	<u>276,871</u>

Included within prepayments and accrued income are amounts receivable after one year totalling £73,958 (2012 – £16,333)

12. Trade and other creditors

<i>Due within 1 year</i>	<i>2013</i> £	<i>2012</i> £
Other creditors	90,316	663,708
Other taxation and social security costs	247,067	237,852
Accruals and deferred income	658,042	615,140
	<u>995,425</u>	<u>1,516,700</u>

Notes to the financial statements

at 31 August 2013

13. Loans

	2013 £	2012 £
Loans not wholly repayable within 5 years		
6 13% mortgage expiring on 1 October 2021	2,199,910	2,466,590
5 29% mortgage to 12 April 2016 then variable rate plus 0.75% to January 2031*	5,250,000	5,550,000
5 29% mortgage to June 2020 *	4,250,000	4,500,000
	<u>11,699,910</u>	<u>12,516,590</u>
Loans wholly repayable within 5 years		
3 5% loans from shareholders, directors and their families	2,570,000	1,920,000
Variable rate plus 1%	901,962	1,215,687
	<u>15,171,872</u>	<u>15,652,277</u>
Less included in creditors amounts falling due within one year	<u>(1,130,405)</u>	<u>(1,130,405)</u>
	<u>14,041,467</u>	<u>14,521,872</u>
Amounts repayable		
Within one year	1,130,405	1,130,405
In one to two years	1,130,405	1,130,405
In two to five years	5,294,552	4,958,277
	<u>7,555,362</u>	<u>7,219,087</u>
Over five years	7,616,510	8,433,190
	<u>15,171,872</u>	<u>15,652,277</u>

* after taking into account the effect of in place interest rate swaps (see below)

All loans, except those from shareholders, directors and their families, are secured against specific investment properties.

	Book value		Fair value	
	2013	2012	2013	2012
	£	£	£	£
Long-term borrowings	<u>14,041,467</u>	<u>14,521,872</u>	<u>14,225,607</u>	<u>15,056,094</u>

The fair value of long-term loans (including the effect of interest rate swaps) has been calculated by discounting the expected future cash flows arising under the company's loan arrangements at market rates at each year end

The company has two interest rate swaps in place which swap variable rate interest on the loans with outstanding principal of £5.25m and £4.25m to fixed rate interest at a rate of 5.29% for a period to 2016 and 2020 respectively. The fair value of these derivatives at the year end is a liability of £120,221 (2012 – £401,900)

Notes to the financial statements

at 31 August 2013

14. Provisions for liabilities

Deferred tax included in the balance sheet is as follows

	2013 £	2012 £
Accelerated capital allowances	991,208	1,109,739
		£
At 1 September 2012		1,109,739
Deferred tax credit in profit and loss account for the year (note 7(a))		(146,675)
Effect of tax rate changes (note 7(a))		28,144
At 31 August 2013		991,208

Deferred tax amounts unrecognised are discussed in (note 7(d)). The closing provision is at 20% (2012 – 23%) being the rate at which timing differences are expected to reverse

15. Issued share capital

	No	2013 £	No	2012 £
<i>Allotted, called up and fully paid</i>				
Ordinary shares of £1 each	409,000	409,000	409,000	409,000

16. Reconciliation of shareholders' funds and movements on reserves

	Share capital £	Share premium account £	Revaluation reserve £	Profit and loss account £	Total shareholders' funds £
At 1 September 2011	409,000	6,148	26,289,464	40,091,733	66,796,345
Property revaluation	–	–	1,794,055	–	1,794,055
Property Disposal	–	–	(1,128,474)	1,128,474	–
Profit for the year	–	–	–	2,534,787	2,534,787
At 1 September 2012	409,000	6,148	26,955,045	43,754,994	71,125,187
Property revaluation	–	–	11,669,024	–	11,669,024
Property Disposal	–	–	–	–	–
Profit for the year	–	–	–	3,010,105	3,010,105
Dividend	–	–	–	(1,022,500)	(1,022,500)
At 31 August 2013	409,000	6,148	38,624,069	45,742,599	84,781,816

The company's profit and loss account balance of £45,742,599 as at 31 August 2013 (2012 – £43,754,994) includes non-distributable reserves of £705,175 (2012 – £705,175)

Notes to the financial statements

at 31 August 2013

17. Notes to the statement of cash flows

(a) Reconciliation of operating profit to net cash inflow from operating activities

	2013 £	2012 £
Operating profit	4,441,151	4,411,787
Depreciation	1,643	3,422
Decrease/(increase) in debtors	22,076	(20,666)
Increase/(decrease) in creditors	101,225	(106,590)
Net cash inflow from operating activities	<u>4,566,095</u>	<u>4,287,953</u>

(b) Analysis of net debt

	At 1 September 2012 £	Cash flow £	At 31 August 2013 £
Cash at bank and in hand	2,815,140	407,776	3,222,916
Overdrafts	(25,410)	25,410	—
Loans	(15,652,276)	480,406	(15,171,870)
	<u>(12,862,546)</u>	<u>913,592</u>	<u>(11,948,954)</u>

18. Related party transactions

At the balance sheet date amounts due to directors and close family members were as follows,

Included within creditors amounts falling due within one year

	Loan repayments		Loan contributions		Year end balance	
	2013 £	2012 £	2013 £	2012 £	2013 £	2012 £
S S Potel	(131,648)	(154,929)	9,700	7,200	1,873	3,821
Transfer from/(to) long term	—	—	120,000	150,000	—	—
D Potel	(83,384)	(79,880)	15,000	—	4,872	3,256
Transfer from/(to) long term	—	—	70,000	80,000	—	—
B Potel	(52,295)	(272,229)	4,500	—	5,071	7,866
Transfer from/(to) long term	—	—	45,000	275,000	—	—
					<u>11,816</u>	<u>14,943</u>

Notes to the financial statements

at 31 August 2013

18. Related party transactions (continued)

Included within Creditors amounts falling due after one year

	<i>Loan repayments</i>		<i>Loan contributions</i>		<i>Year end balance</i>	
	<i>2013</i>	<i>2012</i>	<i>2013</i>	<i>2012</i>	<i>2013</i>	<i>2012</i>
	£	£	£	£	£	£
S S Potel	–	–	490,000	–	1,180,000	810,000
Transfer from/(to) current	(120,000)	(150,000)	–	–	–	–
D Potel	–	–	230,000	–	930,000	770,000
Transfer from/(to) current	(70,000)	(80,000)	–	–	–	–
B Potel	–	–	165,000	–	460,000	340,000
Transfer from/(to) current	(45,000)	(275,000)	–	–	–	–
					<u>2,570,000</u>	<u>1,920,000</u>

Interest payable on related party loans

	<i>At</i>	<i>Earned</i>		<i>At</i>
	<i>1 September 2012</i>	<i>during the year</i>	<i>Paid during the year</i>	<i>31 August 2013</i>
	£	£	£	£
S S Potel	5,359	23,931	21,460	7,807
D Potel	5,226	22,113	21,186	6,153
B Potel	2,381	10,564	9,901	3,044
	<u>12,966</u>	<u>56,608</u>	<u>52,547</u>	<u>17,004</u>

At the balance sheet date Fairholme Estates Management Limited was owed £1,649 (2012 – £1,649) by the company. Fairholme Estates Management Limited is 100% subsidiary of Fairholme Estates (Holdings) Limited. There were no transactions arising during the year between Fairholme Estates (Holdings) Limited and the two subsidiary companies.

During the year the company made charitable donations of £40,000 (2012 – £50,000) to The Potel Charitable Trust, a registered charity. The Potel Charitable Trust is related by virtue of common Directors and Trustees.

19. Ultimate parent undertaking and controlling party

There is no overall controlling party.

20. Events since the balance sheet date

Subsequent to the year end the Company disposed of a property for a consideration of £11,900,000 which realised a profit on disposal before tax of approximately £1,600,000.