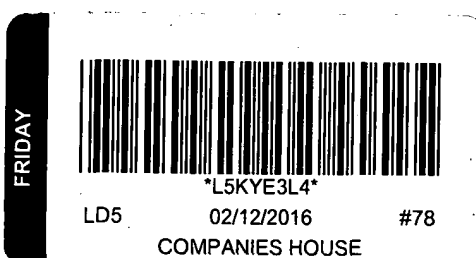


# **Fairholme Estates (Holdings) Limited**

## **Report and Financial Statements**

31 August 2016



**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 2016.

### Results and dividends

The Profit for the year after taxation amounted to £1,609,018 (2015 – £588,208). The directors do not recommend a final dividend (2015 – £nil). Interim dividends of £Nil (2015 – £nil) were paid during the year.

### 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:

	2016 £	2015 £
Turnover	5,513,080	5,072,397
Operating Profit	5,010,219	4,362,165
Profit before tax	1,541,030	1,035,359
Shareholders' funds	<u>86,835,856</u>	<u>85,289,820</u>

Turnover has increased as a result of additions to the portfolio made in the prior year. Profit before tax has increased in line with the increase in turnover. In addition, the reduction in long term loans and hence interest payable has had a corresponding positive effect.

### Future developments

The directors aim to continue to deliver stable returns.

### 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 an interest rate swap 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.

### Investment property valuations

The Company's freehold and heritable properties were valued as at 31 August 2016 by external valuers, Paul Hale BSc MRICS and Lucinda Lee-Bapty BSc MRICS, of Colliers International. The valuations were prepared in accordance with the requirements of the RICS Valuation Standards, ninth edition, and the International Valuation Standards. The valuation of each property was on the basis of Market Value as defined. The valuer's opinion of Market Value was derived by collating and analysing recent arm's length market sales of similar assets in order to then adopt an appropriate yield profile. In addition, the individual valuations were discussed with Colliers International's investment team who have extensive experience and market knowledge of both sales and acquisitions in the retail investment market.

## Directors' report (continued)

### Directors

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

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

### Political and charitable contributions

During the year, the company made charitable donations totalling £50,000 (2015 – £50,000)

### 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.

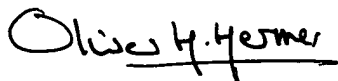
### Auditors

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

### Small company exemptions

This report has been prepared in accordance with the special provisions applicable to companies subject to the small companies regime within Part 15 of the Companies Act 2006.

By order of the Board



Secretary

Date

1st December 2016.

## 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 2016 which comprise the Income statement, the Statement of comprehensive income, the Statement of changes in equity, the Statement of financial position and the related notes 1 to 18. 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), including FRS 102 Section 1A the Financial Reporting Standard applicable to the UK and Republic of Ireland.

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 Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 Section 1A the Financial Reporting Standard applicable to the UK and Republic of Ireland; 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 (continued)

## 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; 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' exemption in preparing the directors' report.

*Ernst & Young LLP*

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

Date 1 / 12 / 16

## Income statement

for the year ended 31 August 2016

		2016	2015
	Notes	£	£
<b>Turnover</b>	2	5,513,080	5,072,397
Administrative expenses		(502,861)	(710,232)
<b>Operating profit</b>	3	5,010,219	4,362,165
Profit on sale of investment properties		-	111,057
Loss in revaluation of investment properties		(2,875,614)	(2,814,195)
Bank interest receivable		4,753	36,178
Interest payable and similar charges	6	(598,328)	(659,846)
<b>Profit before taxation</b>		1,541,030	1,035,359
Tax credit / (charge) for the year	7	67,988	(447,151)
<b>Profit for the financial year</b>		<u>1,609,018</u>	<u>588,208</u>

All amounts relate to continuing activities.

## Statement of comprehensive income

for the year ended 31 August 2016

	2016	2015
	£	£
Profit for the year	1,609,018	588,208
Loss on the change in fair value of interest rate swaps	(62,982)	(114,445)
<b>Total comprehensive income for the year</b>	<u>1,546,036</u>	<u>473,763</u>



## Statement of changes in equity

for the year ended 31 August 2016

	<i>Share capital</i>	<i>Share premium account</i>	<i>Cash flow hedge reserve</i>	<i>Profit and loss account</i>	<i>Total share-holders' funds</i>
	£	£	£	£	£
At 1 September 2014	409,000	6,148	(107,348)	84,508,257	84,816,057
Profit for the financial year	–	–	–	588,208	588,208
Other comprehensive income	–	–	(114,445)	–	(114,445)
At 1 September 2015	409,000	6,148	(221,793)	85,096,465	85,289,820
Profit for the financial year				1,609,018	1,609,018
Other comprehensive income			(62,982)		(62,982)
At 31 August 2016	<u>409,000</u>	<u>6,148</u>	<u>(284,775)</u>	<u>86,705,483</u>	<u>86,835,856</u>

# Statement of financial position

At 31 August 2016

	Notes	2016 £	2015 £
<b>Fixed assets</b>			
Tangible assets	8	101,620,711	104,415,620
Investments	9	1,651	1,651
		<u>101,622,362</u>	<u>104,417,271</u>
<b>Current assets</b>			
Debtors	10	474,383	451,080
Amounts owed by subsidiary		5,013,850	5,002,000
Cash at bank and in hand		1,825,314	2,008,666
		<u>7,313,547</u>	<u>7,461,746</u>
<b>Creditors: amounts falling due within one year</b>			
Loans	12	(550,000)	(550,000)
Trade and other creditors	11	(1,007,197)	(1,015,542)
Current corporation tax		(379,111)	(275,074)
		<u>(1,936,308)</u>	<u>(1,840,616)</u>
<b>Net current Assets</b>		<u>5,377,239</u>	<u>5,621,130</u>
<b>Total assets less current liabilities</b>		<u>106,999,601</u>	<u>110,038,401</u>
<b>Creditors: amounts falling due after more than one year</b>			
Amounts owed to subsidiary undertakings	16	-	(649)
Loans	12	(16,925,000)	(20,725,000)
Other creditors		(321,103)	(250,403)
		<u>(17,246,103)</u>	<u>(20,976,052)</u>
<b>Provisions for liabilities</b>			
Deferred taxation	7(c)	(2,917,642)	(3,772,529)
<b>Total assets less liabilities</b>		<u>86,835,856</u>	<u>85,289,820</u>
<b>Capital and reserves</b>			
Called up share capital	13	409,000	409,000
Share premium account		6,148	6,148
Profit and loss account		86,705,483	85,096,465
Cash flow hedge reserve		(284,775)	(221,793)
<b>Shareholders' funds</b>		<u>86,835,856</u>	<u>85,289,820</u>

The financial statements have been prepared in accordance with the special provisions for small companies under Part 15 of the Companies Act 2006.

Director

1st December 2016

## Statement of cash flows

for the year ended 31 August 2016

	Notes	2016 £	2015 £
<b>Net cash inflow from operating activities</b>	14(a)	<u>4,305,341</u>	<u>2,785,851</u>
<b>Investing activities</b>			
Interest received		4,753	36,178
Interest paid		(598,327)	(659,846)
Payments to acquire tangible fixed assets		(83,269)	(26,967,000)
Receipts from sale of tangible fixed assets		–	7,588,000
Loans to subsidiaries		(11,850)	(2,000)
Net cash flow from investing activities		<u>(688,693)</u>	<u>(20,004,668)</u>
<b>Financing activities</b>			
New long term loans		115,000	11,000,000
Repayment of long term loans		<u>(3,915,000)</u>	<u>(1,770,000)</u>
Net cash flow from financing activities		<u>(3,800,000)</u>	<u>9,230,000</u>
Decrease in cash	14(b)	(183,352)	(7,988,817)
Opening cash balance at 1 September		<u>2,008,666</u>	<u>9,997,483</u>
<b>Closing cash balance at 31 August</b>		<u><b>1,825,314</b></u>	<u><b>2,008,666</b></u>

## Notes to the financial statements

at 31 August 2016

### 1. Accounting policies

#### *Statement of Compliance*

Fairholme Estates (Holdings) Limited is a limited liability company incorporated in England and Wales. The registered office is 47 St. Johns Wood High Street, London, NW8 7NJ.

The financial statements have been prepared in compliance with FRS 102 Section 1A. There were no material departures from that standard.

The Company transitioned from previously extant UK GAAP to FRS 102 Section 1A as at 1 September 2014. An explanation of how transition to FRS 102 Section 1A has affected the reported financial position and financial performance is given in note 18.

#### *Basis of preparation*

The financial statements are prepared under the historical cost basis except investment properties and derivative financial instruments that have been measured at their fair value. The financial statements are prepared in sterling which is the functional currency.

#### *Group financial statements*

The company has taken advantage of the exemption under section 399 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 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*

The company carries its investment property at fair value, with changes in fair value being recognised in profit or loss.

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.

#### *Derivative instruments and hedging*

The company used derivative financial instruments in the form of interest rate swaps to reduce its exposure to interest rate fluctuations on the company's floating rate bank loan. The company has determined that its interest rate swap qualifies for hedge accounting under FRS 102. Accordingly, the effective portion of the gain or loss on the interest rate swap is recognised directly in other comprehensive income in the cash flow hedge reserve, with the ineffective portion recognised in profit or loss. The

# Notes to the financial statements

at 31 August 2016

## 1. Accounting Policies (continued)

### *Derivative instruments and hedging (continued)*

hedging gain or loss accumulated in the cash flow hedge reserve is reclassified to the income statement when the hedged item is recognised in profit or loss when the hedged future cash flows are no longer expected to occur.

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value.

Derivatives are carried as assets when the fair value is positive and liabilities when the fair value is negative. The fair value of interest rate swap contracts is determined by calculating the present value of the estimated future cash flows based on observable yield curves.

### **Going Concern**

The financial statements have been prepared on a going concern basis. The directors consider this to be appropriate as they have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future.

### **Deferred taxation**

Deferred tax is recognised in respect of timing differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements.

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:

	2016	2015
	£	£
Auditors' remuneration – audit	25,500	30,000
– taxation	8,000	7,238
Depreciation of tangible fixed assets	<u>2,563</u>	<u>1,862</u>

## 4. Directors' remuneration

	2016	2015
	£	£
Remuneration	<u>117,245</u>	<u>143,669</u>
Company contributions paid to defined contribution pension schemes	<u>30,119</u>	<u>39,016</u>

## Notes to the financial statements

at 31 August 2016

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

### 5. Staff costs

	2016 £	2015 £
Wages and salaries	157,978	183,952
Social security costs	13,188	17,837
Contributions paid to pension schemes	30,119	39,016
	<u>201,285</u>	<u>240,805</u>

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

	2016 No.	2015 No.
Management	6	6
General	1	1
	<u>7</u>	<u>7</u>

### 6. Interest payable and similar charges

	2016 £	2015 £
On loans repayable within 5 years and bank advances	491,492	493,211
Other loans	106,836	166,635
	<u>598,328</u>	<u>659,846</u>

### 7. Tax

(a) Tax (credit)/charge on profit on ordinary activities

The tax (credit)/charge is made up as follows:

	2016 £	2015 £
<b>Current tax:</b>		
UK corporation tax on profit for the year	779,138	650,519
Adjustments in respect of previous years	43	(27,379)
Total current tax	<u>779,181</u>	<u>623,140</u>
<b>Deferred tax:</b>		
Origination and reversal of timing differences	(516,565)	(170,188)
Effect of tax rate changes	(330,606)	(5,801)
Total deferred tax (note 7 (c))	<u>(847,169)</u>	<u>(175,989)</u>
Tax (credit)/charge on profit on ordinary activities (note 7(b))	<u>(67,988)</u>	<u>447,151</u>

## Notes to the financial statements

at 31 August 2016

### 7. Tax (continued)

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

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 20% (2015 – 20.58%). The differences are explained below:

	2016 £	2015 £
Profit before tax	1,541,030	1,035,359
multiplied by standard rate of corporation tax in the UK of 20% (2015 – 20.58%)	308,206	213,077
<i>Effects of:</i>		
Expenses not deductible for tax purposes	511	(19,357)
Revaluations	(31,258)	287,758
Tax rate changes	(330,605)	5,110
Adjustment in respect of previous years	43	(27,379)
Effect of group relief	(14,885)	(12,058)
Total taxation (note 7(a))	67,988	447,151

(c) Deferred tax

Deferred tax liability included in the balance sheet is as follows:

	2016 £	2015 £
Accelerated capital allowances	1,172,357	1,212,803
Revaluation of investment properties	1,803,084	2,609,807
Fair value of swap	(57,799)	(50,081)
Deferred tax liability	2,917,642	3,772,529
		£
At 1 September 2015		3,772,529
Income statement (note 7(a))		(847,169)
Other comprehensive income		(7,718)
At 31 August 2016		2,917,642

Deferred tax amounts unrecognised are discussed in (note 7(d)). The closing provision is at 18% (2015 – 20%) being the rate at which timing differences are expected to reverse.

(d) Factors that may affect future tax charges

The main rate of UK corporation tax was reduced from 21% to 20% from 1 April 2015. The Finance Act 2015 included legislation to reduce the main rate of corporation tax from 20% to 19% from 1 April 2017 and to 18% from 1 April 2020. These changes were substantively enacted on 26 October 2015. In its 2016 Budget announced on 16 March 2016, the UK Government announced its intention to further lower the

## Notes to the financial statements

at 31 August 2016

main rate of corporation tax to 17% from 1 April 2020. The impact of this is not incorporated in the above numbers as this proposed measure was not substantively enacted at 30 August 2016.

### 8. Tangible fixed assets

	<i>Freehold investment properties</i>	<i>Office equipment</i>	<i>Total</i>
	£	£	£
Cost or valuation:			
At 1 September 2015	104,409,820	41,692	104,451,512
Additions	81,605	1,663	83,268
Disposals	-	(3,200)	(3,200)
Revaluation during the year	(2,875,614)	-	(2,875,614)
At 31 August 2016	<u>101,615,811</u>	<u>40,155</u>	<u>101,655,966</u>
Depreciation:			
At 1 September 2015	-	35,892	35,892
Charge for the year	-	2,563	2,563
Disposals	-	(3,200)	(3,200)
At 31 August 2016		<u>35,255</u>	<u>35,255</u>
Net book value:			
At 31 August 2016	<u>101,615,811</u>	<u>4,900</u>	<u>101,620,711</u>
At 1 September 2015	<u>104,409,820</u>	<u>5,800</u>	<u>104,415,620</u>

The Company's freehold and heritable properties were valued as at 31 August 2016 by external valuers, Paul Hale BSc MRICS and Lucinda Lee-Bapty BSc MRICS, of Colliers International. The valuations were prepared in accordance with the requirements of the RICS Valuation Standards, sixth edition, and the International Valuation Standards. The valuation of each property was on the basis of Market Value as defined. The valuer's opinion of Market Value was derived by collating and analysing recent arm's length market sales of similar assets in order to then adopt an appropriate yield profile. In addition, the individual valuations were discussed with Colliers International's investment team who have extensive experience and market knowledge of both sales and acquisitions in the retail investment market.

The investment property valuations are 'Level III' type valuations. The valuations are principally based on an income capitalisation approach, whereby the lease income is capitalised at the market rate – often expressed in terms of equivalent yield. As the properties are typically let on long term leases, the current lease income is known and the estimated rent achievable on a reversion is of lesser significance. The key unobservable input in the valuations are therefore the yields - which are determined by the valuer on a property by property basis - based on comparable transactions and their experience of the market, adjusted for property specific factors. Purchasers costs are then deducted at a standard rates of 6.8% to arrive at a market value, which is equivalent to fair value.

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

	2016	2015
	£	£
Properties held by the company	<u>78,401,094</u>	<u>78,319,489</u>



## Notes to the financial statements

at 31 August 2016

### 9. Investments

	<i>Subsidiary undertakings £</i>
Cost:	
At 1 September 2015 and 31 August 2016	19,649
Provision:	
At 1 September 2015 and 31 August 2016	(17,998)
Net book value:	
At 1 September 2015 and 31 August 2016	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	Property development	1	--
Fairholme Management Limited	England and Wales	Investment	1,650	--

### 10. Debtors

	<i>2016 £</i>	<i>2015 £</i>
Trade debtors	5	--
Other debtors	33,939	28,323
Prepayments and accrued income	440,439	422,757
	<u>474,383</u>	<u>451,080</u>

Included within prepayments and accrued income are amounts that reverse after 1 year totalling £402,366 (2015 – £410,980).

### 11. Trade and other creditors

<i>Due within one year</i>	<i>2016 £</i>	<i>2015 £</i>
Other creditors	73,144	49,728
Other taxes and social security costs	260,898	289,921
Accruals and deferred income	673,155	675,893
	<u>1,007,197</u>	<u>1,015,542</u>

## Notes to the financial statements

at 31 August 2016

### 12. Loans

	2016 £	2015 £
Loans not wholly repayable within 5 years:		
5.29% mortgage to 12 April 2016 then variable rate plus 0.75% to January 2031	4,350,000	4,650,000
Loans wholly repayable within 5 years:		
3.5% loans from shareholders, directors and their families	2,625,000	2,875,000
Variable rate plus 1.8% to March 2020	7,000,000	10,000,000
5.29% mortgage to June 2020*	3,500,000	3,750,000
	17,475,000	21,275,000
Less: included in creditors: amounts falling due within one year	(550,000)	(550,000)
	16,925,000	20,725,000
Amounts repayable:		
Within one year	550,000	550,000
In one to two years	550,000	550,000
In two to five years	13,525,000	17,025,000
	14,625,000	18,125,000
Over five years	2,850,000	3,150,000
	17,475,000	21,275,000

\* 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.

	2016 £	Book value 2015 £
Long term borrowings	16,925,000	20,725,000
Fair value of interest rate swap	321,103	250,403
Total Long-term borrowings	17,246,103	20,975,403

The fair value of long-term loans (including the effect of interest rate swaps) is determined by calculating the present value of the estimated future cash flows based on observable yield curves.

The company has one interest rate swap in place which swaps variable rate interest on loans with outstanding principal of £3.5 m (2015 – £3.75m) to fixed rate interest at a rate of 5.29% for a period to 2020. The fair value of this derivative at the year end is a liability of £321,103 (2015 – £250,403).

## Notes to the financial statements

at 31 August 2016

### 13. Issued share capital

<i>Allotted, called up and fully paid</i>	<i>No.</i>	<i>2016</i>	<i>No.</i>	<i>2015</i>
		<i>£</i>		<i>£</i>
Ordinary shares of £1 each	409,000	<u>409,000</u>	409,000	<u>409,000</u>

### 14. Notes to the statement of cash flows

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

	<i>2016</i>	<i>2015</i>
	<i>£</i>	<i>£</i>
Operating profit	5,010,219	4,362,165
Depreciation	2,563	1,862
Increase in debtors	(23,303)	(113,755)
(Decrease)/ Increase in creditors	(8,993)	143,648
Corporation tax paid	<u>(675,145)</u>	<u>(1,608,069)</u>
Net cash inflow from operating activities	<u>4,305,341</u>	<u>2,785,851</u>

(b) Analysis of net debt

	<i>At</i>		<i>At</i>
	<i>1 September</i>	<i>Cash flow</i>	<i>31 August</i>
	<i>2015</i>		<i>2016</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Cash at bank and in hand	2,008,666	(183,352)	1,825,314
Loans	<u>(21,275,000)</u>	<u>3,800,000</u>	<u>(17,475,000)</u>
	<u>(19,266,334)</u>	<u>3,616,648</u>	<u>(15,649,686)</u>

## Notes to the financial statements

at 31 August 2016

### 15. 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:

	<i>Loan repayments</i>		<i>Loan contributions</i>		<i>Year end balance</i>	
	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>
	£	£	£	£	£	£
S S Potel	82,279	783,636	124,700	1,022,440	7,045	4,624
Transfer from/(to) long term	40,000	245,000	-	-	-	-
D Potel	160,470	278,962	165,000	275,000	8,830	4,300
B Potel	121,095	190,854	-	190,000	8,217	4,312
Transfer from/(to) long term	-	-	125,000	-	-	-
					<u>24,092</u>	<u>13,236</u>

Included within Creditors: amounts falling due after one year:

	<i>Loan repayments</i>		<i>Loan contributions</i>		<i>Year end balance</i>	
	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>
	£	£	£	£	£	£
S S Potel	75,000	755,000	115,000	1,000,000	1,325,000	1,285,000
D Potel	165,000	275,000	-	-	875,000	1,040,000
B Potel	125,000	190,000	-	-	425,000	550,000
					<u>2,625,000</u>	<u>2,875,000</u>

Interest payable on related party loans:

	<i>At 1 September 2015</i>	<i>Earned during the year</i>	<i>Paid during the year</i>	<i>At 31 August 2016</i>
	£	£	£	£
S S Potel	8,502	37,150	(36,885)	8,767
D Potel	6,881	27,019	(28,111)	5,789
B Potel	3,639	13,798	(14,625)	2,812
	<u>19,022</u>	<u>77,967</u>	<u>79,621</u>	<u>17,368</u>

### 16. Related party transactions (continued)

At the balance sheet date Fairholme Management Limited owed £5,014,500 (2015 – £5,002,000) to the company. The company owed Fairholme Management Limited £650 (2015 – £649). Fairholme Management Limited is 100% subsidiary of Fairholme Estates (Holdings) Limited.

Fairholme Management Limited has stock market investment and cash with a market value at 31 August of £5,696,554 (2015 – £5,104,467).

## Notes to the financial statements

at 31 August 2016

During the year the company made charitable donations of £50,000 (2015 – £50,000) to The Potel Charitable Trust, a registered charity. The Potel Charitable Trust is related by virtue of common control.

### 17. Ultimate parent undertaking and controlling party

There is no overall controlling party.

### 18. Transition to FRS 102

The company transitioned to FRS 102 from previously extant UK Accounting Standards as at 1 September 2014. The impact of the transition to FRS 102 is as follows:

#### Reconciliation of equity

	<i>At 1 Sep 2014</i>	<i>At 31 Aug 2015</i>
	£	£
Capital and reserves under previous UK GAAP	87,888,301	88,099,949
Deferred tax	(2,964,896)	(2,559,726)
Derivative financial instruments	(107,348)	(250,403)
Capital and reserves under FRS 102	<u>84,816,057</u>	<u>85,289,820</u>

#### *Deferred tax*

Deferred tax has been recognised on the event that the group disposed of its freehold and investment properties at their current market values as included in the financial statements. Tax would be payable on these disposals to the extent that rollover relief is not available.

#### *Derivative financial instrument*

Under FRS 102 the company has elected to apply hedge accounting to its derivative financial instruments. Changes in fair value are recorded in equity when considered effective and the income statement when considered ineffective. Under previous UK GAAP the derivative financial instruments were off balance sheet.

#### Reconciliation of profit and loss for the year

	<i>Year ended 31 Aug 2015</i>
	£
Profit for the year ended 31 August 2015 under previous UK GAAP	3,025,843
Loss in revaluation of investment properties	(2,814,195)
Deferred tax	<u>376,560</u>
Profit for the year ended 31 August 2014 under FRS 102	<u>588,208</u>

## Notes to the financial statements

at 31 August 2016

The following was a change in accounting policy arising from the transition to FRS 102:

### *Investment properties*

Under FRS 102 changes in the fair value of freehold and investment properties are recorded in the income statement. Under previous UK GAAP these changes were recorded in the statement of total recognised gains and losses.

### *Deferred tax*

Deferred tax has been recognised on the event that the group disposed of its freehold and investment properties at their current market values as included in the financial statements. Tax would be payable on these disposals to the extent that rollover relief is not available.

### **Transitional Relief**

On transition to FRS 102 from previous UK GAAP, the company have taken advantage of transitional relief as follows:

### *Investments in subsidiaries*

The company has elected to keep the carrying amount of investments in subsidiaries under previous UK GAAP at the date of transition as deemed cost on transition to FRS 102.

### *Lease incentives*

The company has not applied paragraphs 20.15A or 20.25A to lease incentives where the lease commenced before the date of transition to FRS 102. It has continued to recognise any residual benefit or cost associated with these lease incentives on the same basis as applied prior to transition to FRS 102.