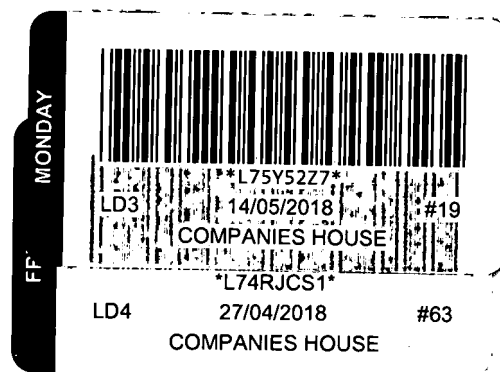


Fairholme Estates (Holdings) Limited

Report and Financial Statements

31 August 2017



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 2017.

Results and dividends

The loss for the year after taxation amounted to £6,108,459 (2016 – £1,609,018). The directors do not recommend a final dividend (2016 – £nil). Interim dividends of £818,000 (2016 – £nil) were paid during the year.

Principal activity and review of the business

Following the sale of the majority of the company's property portfolio in the year, the company's activity is now that of property investment and investment in various securities. The company's key performance indicators are now as follows:

	2017 £
Valuation of investments	57,787,900
Investment returns	672,966
Shareholders' funds	<u>80,194,172</u>

Future developments

The directors aim to continue to deliver stable returns.

Principal risks and uncertainties

The directors have invested the proceeds from the sale of the properties with three investment banks. Each bank has a separate investment strategy and as a result the directors are of the opinion that the investment risk is diversified.

All of the investments are readily realisable and as a result the directors have prepared the financial statements on a going concern basis.

Investment and property valuations

The investments in securities were valued at 31 August 2017 by the individual banks on a Market Value basis.

The Company's freehold property was valued as at 31 August 2017 by the directors. The valuation of the property was on the basis of Market Value taking account of the income stream and yield profile of the tenants.

Directors

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

S S Potel
O H Hermes
J R Garnett - Resigned 31 August 2017
G Potel
D Potel
M D Paisner

Political and charitable contributions

During the year, the company made charitable donations totalling £50,000 (2016 – £50,000)

Directors' report (continued)

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

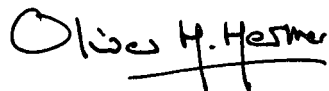
A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

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


5 April 2018

OLIVER HERMES

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

Opinion

We have audited the financial statements of Fairholme Estates (Holdings) Limited for the year ended 31 August 2017 which comprise the Profit and Loss Account, the Balance Sheet, Statement of cash flows, the Statement of comprehensive income, the Statement of changes in equity and the related notes 1 to 17, 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 FRS 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 company's affairs as at 31 August 2017 and of its loss 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 below. 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 other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

Independent auditors' report

to the members of Fairholme Estates (Holdings) Limited (continued)

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 strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

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 strategic report or 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.

Responsibilities of directors

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, 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.

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.

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.

Grant & Young LLP

Matthew Williams (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London 10 April 2018

Income statement

for the year ended 31 August 2017

	Notes	2017 £	2016 £
Rental income	2	2,700,867	5,513,080
Interest from investments	2	204,565	—
Dividend income from investments	2	205,774	—
Dividend income from subsidiary	2	590,182	—
Investment gains		262,627	—
Administrative expenses		(1,687,121)	(502,861)
Operating profit	3	2,276,894	5,010,219
Loss on sale of investment properties		(8,642,141)	—
Valuation loss on investment properties		(2,925,000)	(2,875,614)
Bank interest receivable		—	4,753
Interest payable and similar charges	6	(215,440)	(598,328)
(Loss)/profit before taxation		(9,505,687)	1,541,030
Tax credit for the year	7	3,397,228	67,988
(Loss)/profit for the financial year		<u>(6,108,459)</u>	<u>1,609,018</u>

Statement of comprehensive income

for the year ended 31 August 2017

	2017 £	2016 £
(Loss)/profit for the year	(6,108,459)	1,609,018
Movement in fair value of interest rate swaps	-	(62,982)
Total comprehensive income for the year	<u>(6,108,459)</u>	<u>1,546,036</u>

Statement of changes in equity

	<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 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 1 September 2016	409,000	6,148	(284,775)	86,705,483	86,835,856
Loss for the financial year	—	—	—	(6,108,459)	(6,108,459)
Dividend Paid	—	—	—	(818,000)	(818,000)
Recycling of cash flow hedge	—	—	284,775	—	284,775
At 31 August 2017	409,000	6,148	—	79,779,024	80,194,172

10.10.17

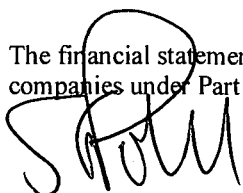
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Statement of financial position

At 31 August 2017

	Notes	2017 £	2016 £
Fixed assets			
Investment property	8	4,250,000	101,615,811
Investments	9	57,789,550	1,651
Other fixed assets	8	3,100	4,900
		<u>62,042,650</u>	<u>101,622,362</u>
Current assets			
Debtors	10	110,766	474,383
Deferred taxation		599,056	-
Amounts owed by subsidiary		-	5,013,850
Cash at bank and in hand		<u>21,568,849</u>	<u>1,825,314</u>
		<u>22,278,671</u>	<u>7,313,547</u>
Creditors: amounts falling due within one year			
Due to subsidiary		(690,384)	-
Loans	12	-	(550,000)
Trade and other creditors	11	(298,765)	(1,007,197)
Current corporation tax		-	(379,111)
		<u>(989,149)</u>	<u>(1,936,308)</u>
Net current assets		<u>21,289,522</u>	<u>5,377,239</u>
Total assets less current liabilities		<u>83,332,172</u>	<u>106,999,601</u>
Creditors: amounts falling due after more than one year			
Amounts owed to subsidiary undertakings	16	-	-
Loans	12	(3,078,000)	(16,925,000)
Other creditors		<u>(60,000)</u>	<u>(321,103)</u>
		<u>(3,138,000)</u>	<u>(17,246,103)</u>
Provisions for liabilities			
Deferred taxation	7(c)	-	(2,917,642)
Total assets less liabilities		<u>80,194,172</u>	<u>86,835,856</u>
Capital and reserves			
Called up share capital	13	409,000	409,000
Share premium account		6,148	6,148
Profit and loss account		79,779,024	86,705,483
Cash flow hedge reserve		-	(284,775)
Shareholders' funds		<u>80,194,172</u>	<u>86,835,856</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

5 April 2018

Solomon Potel

Statement of cash flows

for the year ended 31 August 2017

	Notes	2017 £	2016 £
Net cash inflow from operating activities	14(a)	<u>1,233,564</u>	<u>4,305,341</u>
Investing activities			
Interest received		-	4,753
Interest paid		(251,768)	(598,327)
Payments to acquire tangible fixed assets		(893)	(83,269)
Receipts from sale of investment property		85,798,670	-
Payments to acquire investments		(57,525,272)	-
Loans to subsidiaries		-	(11,850)
Net cash flow from investing activities		<u>28,020,737</u>	<u>(688,693)</u>
Financing activities			
New long term loans		1,125,000	115,000
Dividends paid		(818,000)	-
Repayment of loans to directors and group entities		5,932,234	-
Repayment of long term loans		(15,750,000)	(3,915,000)
Net cash flow from financing activities		<u>(9,510,766)</u>	<u>(3,800,000)</u>
Increase/(decrease) in cash	14(b)	19,743,535	(183,352)
Opening cash balance at 1 September		<u>1,825,314</u>	<u>2,008,666</u>
Closing cash balance at 31 August		<u>21,568,849</u>	<u>1,825,314</u>

Notes to the financial statements

at 31 August 2017

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 17.

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

Investments are stated at fair value with changes in fair value recognised in profit or loss. Losses and gains on investments are included within changes in fair value.

Investment property

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

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 and 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 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.

Notes to the financial statements

at 31 August 2017

1. Accounting Policies (continued)

Derivative instruments and hedging (continued)

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.

Turnover

Rental income is recognised on a straight line basis over the period of the rental agreement.

Interest is recognised on an effective interest rate basis.

Dividend income is recognised when the company has a legal entitlement to the income.

2. Turnover

Turnover all arises in the United Kingdom.

3. Operating profit

This is stated after charging:		2017	2016
		£	£
Auditors' remuneration	– audit	25,500	25,500
	– taxation	15,500	8,000
	– other	6,850	–
Depreciation of tangible fixed assets		<u>2,693</u>	<u>2,563</u>

4. Directors' remuneration

	2017	2016
	£	£
Remuneration	<u>599,022</u>	<u>117,245</u>
Company contributions paid to defined contribution pension schemes	<u>32,183</u>	<u>30,119</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 2017

5. Staff costs

	2017	2016
	£	£
Wages and salaries	659,052	157,978
Social security costs	81,671	13,188
Contributions paid to pension schemes	131,820	30,119
	<u>872,543</u>	<u>201,285</u>

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

	2017	2016
	No.	No.
Management	6	6
General	1	1
	<u>7</u>	<u>7</u>

6. Interest payable and similar charges

	2017	2016
	£	£
On loans repayable within 5 years and related swaps	215,440	491,492
On other loans	-	106,836
	<u>215,440</u>	<u>598,328</u>

7. Taxation

(a) Taxation is as follows:

	2017	2016
	£	£
Current tax:		
UK corporation tax on loss/(profit) for the year	198,089	779,138
Adjustments in respect of previous years	(20,820)	43
Total current tax	<u>177,269</u>	<u>779,181</u>
Deferred tax:		
Origination and reversal of timing differences	(3,926,754)	(516,565)
Effect of tax rate changes	352,257	(330,606)
Total deferred tax	<u>(3,574,497)</u>	<u>(847,169)</u>
Total tax (credit)/charge	<u>(3,397,228)</u>	<u>(67,988)</u>

Notes to the financial statements

at 31 August 2017

7. Taxation (continued)

(b) Factors affecting the tax for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK. The differences are explained below:

	2017 £	2016 £
(Loss)/profit before tax	(9,505,687)	1,541,030
Multiplied by standard rate of corporation tax in the UK of 19% (2016 – 20%)	(1,806,081)	308,206
<i>Effects of:</i>		
Expenses not deductible/income not taxable	79,210	511
Released on disposal of properties	(1,998,587)	(31,258)
Tax rate changes	352,257	(330,605)
Adjustment in respect of previous years	(20,820)	43
Effect of group relief	(3,207)	(14,885)
Total taxation (credit)	(3,397,228)	(67,988)

(c) Deferred tax

Deferred tax included in the balance sheet is as follows:

	2017 £	2016 £
Revaluation of investments (incl. properties)	(609,256)	1,803,084
Fair value of swap	-	(57,799)
Accelerated capital allowances	10,200	1,172,357
Deferred tax (asset)/liability	(599,056)	2,917,642

	£
At 1 September 2016	2,917,642
Credit recognised in profit and loss for the year	(3,574,497)
Other movements	57,799
At 31 August 2017	(599,056)

(d) Factors that may affect future tax charges

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 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 31st August 2017.

Notes to the financial statements

at 31 August 2017

8. Tangible fixed assets

	<i>Freehold investment properties</i>	<i>Office equipment</i>	<i>Total</i>
	£	£	£
Cost or valuation:			
At 1 September 2016	101,615,811	40,155	101,655,966
Additions	–	893	893
Disposals	(94,440,811)	(340)	(94,441,151)
Revaluation	(2,925,000)	–	(2,925,000)
At 31 August 2017	4,250,000	40,708	4,290,708
Depreciation:			
At 1 September 2016	–	35,255	35,255
Charge for the year	–	2,693	2,693
Disposals	–	(340)	(340)
At 31 August 2017	–	37,608	37,608
Net book value:			
At 31 August 2017	4,250,000	3,100	4,253,100
At 1 September 2016	101,615,811	4,900	101,620,711

The Company's freehold property was valued as at 31 August 2017 by the directors. The valuation of the property was on the basis of Market Value taking account of the income stream and yield profile of the tenants.

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

	2017	2016
	£	£
Properties held by the company	3,364,133	78,401,094

Notes to the financial statements

at 31 August 2017

9. Investments in subsidiary

	<i>Subsidiary undertakings</i> £
Cost:	
At 1 September 2016 and 31 August 2017	19,649
Provision:	
At 1 September 2016 and 31 August 2017	(17,998)
Net book value:	
At 1 September 2016 and 31 August 2017	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	–

Investments in securities

At 31 August 2017 this comprised:

	£
Equities	40,528,375
Fixed Income	14,668,283
Other	2,591,242
	<u>57,787,900</u>

The investments in securities were valued at 31 August 2017 with reference to quoted prices in active markets.

10. Debtors

	<i>2017</i> £	<i>2016</i> £
Trade debtors	–	5
Other debtors	93,500	33,939
Prepayments and accrued income	17,266	440,439
	<u>110,766</u>	<u>474,383</u>

Included within prepayments and accrued income are amounts that reverse after 1 year totalling £1,450 (2016 – £402,366).

Notes to the financial statements

at 31 August 2017

11. Trade and other creditors

Due within one year

	2017	2016
	£	£
Other creditors	84,523	73,144
Other taxes and social security costs	10,703	260,898
Accruals and deferred income	203,539	673,155
	<u>298,765</u>	<u>1,007,197</u>

Due after one year

Other creditors	<u>60,000</u>	-
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Notes to the financial statements

at 31 August 2017

12. Loans

	2017 £	2016 £
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
Loans wholly repayable within 5 years:		
3.5% loans from shareholders, directors and their families	3,078,000	2,625,000
Variable rate plus 1.8% to March 2020	-	7,000,000
5.29% mortgage to June 2020*	-	3,500,000
	<u>3,078,000</u>	<u>17,475,000</u>
Less: included in creditors: amounts falling due within one year	-	(550,000)
	<u>3,078,000</u>	<u>16,925,000</u>
Amounts repayable:		
Within one year	-	550,000
In one to two years	3,078,000	3,400,000
In two to five years	-	13,525,000
	<u>3,078,000</u>	<u>17,475,000</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.

	2017 £	Book value 2016 £
Long term borrowings	3,078,000	16,925,000
Fair value of interest rate swap	-	321,103
Total Long-term borrowings	<u>3,078,000</u>	<u>17,246,103</u>

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 had one interest rate swap in place which swapped variable rate interest on loans. This was settled during the year, therefore the fair value of this derivative at the year-end is £nil (2016: £321,103).

Notes to the financial statements

at 31 August 2017

13. Issued share capital

<i>Allotted, called up and fully paid</i>	<i>No.</i>	<i>2017</i>	<i>No.</i>	<i>2016</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

Reconciliation of operating profit to net cash inflow from operating activities

	<i>2017</i>	<i>2016</i>
	£	£
Operating profit	2,276,894	5,010,219
Depreciation	2,693	2,563
Investment gain	(262,627)	-
Decrease in creditors	(648,432)	(8,993)
Decrease/(increase) in debtors	457,117	(23,303)
Corporation tax paid	<u>(592,081)</u>	<u>(675,145)</u>
Net cash inflow from operating activities	<u>1,233,564</u>	<u>4,305,341</u>

Notes to the financial statements

at 31 August 2017

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>	
	2017	2016	2017	2016	2017	2016
	£	£	£	£	£	£
S S Potel	576,050	82,279	853,700	124,700	9,695	7,045
Transfer from/(to) long term	275,000	40,000		–		–
D Potel	97,626	160,470	196,900	165,000	8,104	8,830
Transfer	100,000					
B Potel	68,860	121,095		–	4,657	8,217
Transfer from/(to) long term	78,000	–	143,300	125,000		–
					<u>22,456</u>	<u>24,092</u>

Included within Creditors: amounts falling due after one year:

	<i>Loan repayments</i>		<i>Loan contributions</i>		<i>Year-end balance</i>	
	2017	2016	2017	2016	2017	2016
	£	£	£	£	£	£
S S Potel	550,000	75,000	825,000	115,000	1,600,000	1,325,000
D Potel	60,000	165,000	160,000	–	975,000	875,000
B Potel	62,000	125,000	140,000	–	503,000	425,000
					<u>3,078,000</u>	<u>2,625,000</u>

Interest payable on related party loans:

	<i>At 1 September 2016</i>	<i>Earned during the year</i>	<i>Paid during the year</i>	<i>At 31 August 2017</i>
	£	£	£	£
S S Potel	8,767	46,067	45,571	9,263
D Potel	5,789	30,090	30,388	5,491
B Potel	2,812	14,574	14,839	2,547
	<u>17,368</u>	<u>90,731</u>	<u>90,798</u>	<u>17,301</u>

At the balance sheet date Fairholme Management Limited owed £nil (2016 – £5,014,500) to the company. The company owed Fairholme Management Limited £690,634 (2016 – £650). 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 £940 (2016 – £5,696,554).

During the year the company made charitable donations of £50,000 (2016 – £50,000) to The Potel Charitable Trust, a registered charity. The Potel Charitable Trust is related by virtue of common control.

Notes to the financial statements

at 31 August 2017

16. Ultimate parent undertaking and controlling party

There is no single controlling party.