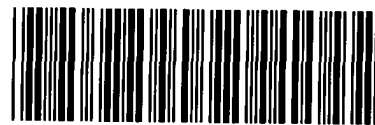


Registered number: 02382336

Farncombe Estate Holdings Limited
Annual report and financial statements
for the year ended 31 December 2017

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Farncombe Estate Holdings Limited

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Farncombe Estate Holdings Limited

Directors and advisors

Directors

J R A Bond
M P Sorensen
A C Grahame
J R A Richardson
J A C Lohan

Registered office

Farncombe House
Broadway
Worcestershire
WR12 7LJ

Independent auditors

BDO LLP
2 Snowhill
Birmingham
B4 6GA

Farncombe Estate Holdings Limited

Strategic report for the year ended 31 December 2017

The directors present their strategic report for the year ended 31 December 2017.

Principal activities

The Farncombe Estate Holdings Limited group ("the group") holds the freehold property on the Farncombe Estate at Broadway in Worcestershire. This principally includes Dormy House Hotel, the Fish Hotel and Foxhill Manor Hotel operated by the group to provide high quality hotel accommodation, event hosting and activities. The group also provides a range of office premises in the estate buildings both for other businesses and for use by the group. The company is an intermediate holding company within the larger SCCL3 Limited group.

Business review and future developments

The group recorded a turnover of £11,895,000 (2016: £10,924,000) and a loss before tax of £4,270,000 (2016: profit of £4,090,000). The financial position of the group is shown on page 9 and the cashflows, with investment in the fixed assets financed by group loans, as set out on page 11.

All of the hotels have recently been refurbished and work has continued into 2018 which has included upgrading and increasing the range of accommodation, with the most recent investment programme being at the Fish Hotel, with the addition of double Shepherd's Huts or 'Hideaway Hilly Huts' as they are referred to and three bespoke Tree Houses. The restaurant at the Fish was also part of this investment programme and has been refurbished resulting in the launch of 'Hook by Martin Burge'. The group's ethos is one of world class customer service delivery offering intimate accommodation associated with the country house market but with contemporary facilities, with a quality culture mindset.

The group also maintains Farncombe Estate as a unique environment in which the hotels are situated and in order to drive profitability through the renting of estate properties not used for the hotel businesses.

Turnover has increased substantially year on year as set out below and reflects the results of the investment in the buildings, fittings and the services available in the hotels over the last 2 years, together with the marketing of these and growth within the customer base. Despite this, and reflective of the problems faced by the industry generally, margins have been squeezed by increasing room commissions, food costs and payroll costs reflecting the increase in the National Minimum Wage and the introduction of the Apprenticeship Levy.

The group's directors consider a range of KPIs to measure business performance. The KPIs are regularly reviewed and may change over time with the development of the business. Current KPIs include the turnover by activity, gross and net margins as well as several other indicators including customer satisfaction and occupancy rates which have increased over the last year.

| | 2017 | 2016 |
|--|--------|--------|
| | £'000 | £'000 |
| Hotel turnover | 11,544 | 10,546 |
| Hotel gross margin | 3,903 | 3,967 |
| Rental income from commercial office premises and other services | 351 | 378 |
| Hotel occupancy (all 3 hotels combined) | 81.1% | 79.7% |

Farncombe Estate Holdings Limited

Strategic report for the year ended 31 December 2017 (continued)

Business review and future developments (continued)

In light of the considerable investment in recent years and the consequent repositioning of the hotels, the group has reviewed its capitalisation and depreciation policies. Following this review, the directors have decided to adopt changes in the useful life of a number of assets, and in particular the useful life of fixtures and fittings. In addition, due to the recent upgrade and refocusing in the Fish Hotel, a number of assets with some £0.3m value required accelerated depreciation.

In light of the market changes which demand constant reinvestment to keep the hotels modern and relevant, the Board has decided that the useful life of 'Fixtures, Fittings and Equipment' (FF&E) should be revised from 10 years to 5 years and this has resulted in accelerated depreciation of £0.6m in these accounts. Over the next several years this will have an ongoing increase in depreciation charge until the new economic life is fully embedded in 2021.

The group has been funded by a combination of equity and long-term loan funding from the parent, SCCL3 Limited (via that company's subsidiary, Skagen Finance Limited). In addition, third party financing is provided by Rothchild Bank. Recent investment at the Fish Hotel and elsewhere on the estate has been funded by the shareholder through an extension to its long-term loans.

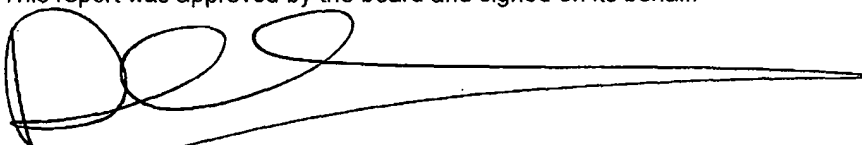
Principal risks and uncertainties

The directors consider the major risks to stem from the economic climate, rising payroll costs and the uncertainty around the impact of Brexit, coupled with keeping the hotel facilities fresh and relevant in the market place. The directors are aware that in general the UK hospitality market is currently trading very strongly and as such the overheads are constantly under review to ensure that the profitability of the businesses can be protected should the market start to decline.

In operational terms, this risk manifests in areas such as effective marketing, customer satisfaction, employee recruitment and retention. The group seeks to offer competitive rates of pay (above national minimum wage) with attractive benefits, career progression and development, coupled with a focus on employee wellbeing and engagement, these support our core values and seek to mitigate the risk of staff turnover.

The group seeks to maintain modern, attractive hotel facilities with an individual appeal, to focus on the customer experience and to maintain a high-quality culture.

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

A handwritten signature in black ink, consisting of a large, stylized 'G' followed by a long horizontal line that tapers to a point.

A C Grahame
Director

27/9/18

Farncombe Estate Holdings Limited

Directors' report for the year ended 31 December 2017

The directors present their report and the audited consolidated financial statements for the year ended 31 December 2017.

Directors

The directors who held office during the year and to the date of signing the financial statements were:

J R A Bond
M P Sorensen
A C Grahame
J R A Richardson
J A C Lohan

Dividends

No dividends have been paid or declared in respect of the year (2016: £nil).

Future developments

These are referred to in the strategic report.

Financial risk management

The group's operations expose it to a variety of financial risks that include the effects of changes in market prices, liquidity, interest rate and credit risk. The group has in place risk management processes that seek to limit the adverse effects on the financial performance of the group.

Interest rate risk: Floating rate interest agreements are in place and this is considered appropriate given that the external borrowings are considered medium term in maturity and low in relation to the property assets in the group and with current market expectations of medium term interest rates.

Credit risk: The group has implemented policies that require appropriate credit checks on potential corporate customers before sales are made and subsequent monitoring of credit levels.

Liquidity risk: The group uses a mixture of third party loans and medium term finance from other group companies that are designed to ensure the group has sufficient available funds for operations and planned expansions.

Market risk: The group is pursuing strategies to further strengthen its position in its market and to expand its offering.

Directors' indemnities

The company maintains liability insurance for its directors and officers. This is a qualifying indemnity provision for the purposes of the Companies Act 2006, and was in place during the financial year and up to the date of signing these financial statements

Farncombe Estate Holdings Limited

Directors' report for the year ended 31 December 2017 (continued)

Statement of directors' responsibilities

The directors are responsible for preparing the strategic report, directors' report and the group and parent company 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 prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising Financial Reporting Standard 102 "The Financial Reporting Standard Applicable in the UK and Republic of Ireland" (FRS 102), 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 group and the company and of the profit or loss of the group for that year.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting 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 the group 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 the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement as to disclosure of information to auditors

As far as the directors are aware, there is no relevant audit information of which the group's auditors are unaware, and the directors have taken all the steps that ought to have been taken as directors in order to make themselves aware of any relevant audit information and to establish that the group's auditors are aware of that information.

Independent auditors

A resolution to reappoint BDO LLP as auditors to the company will be proposed at the annual general meeting.

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



A C Grahame
Director

27/9/18

Farncombe Estate Holdings Limited

Independent auditors' report to the members of Farncombe Estate Holdings Limited

Opinion

We have audited the financial statements of Farncombe Estate Holdings Limited (the 'parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2017 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statement of Financial Position, the Consolidated Statement of Cash Flows, the Consolidated and Company Statement of Changes in Equity and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2017 and of the group's 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. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of 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 Group's and the parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the Strategic report and Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

Farncombe Estate Holdings Limited

Independent auditors' report to the members of Farncombe Estate Holdings Limited (continued)

- 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 Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report and Director's 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 by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company 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, 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 determines 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 Group's and the parent 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 Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report or for the opinions we have formed.


Andrew Muir (senior statutory auditor)

For and on behalf of BDO LLP, statutory auditor
Birmingham

Date: 28/9/18

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

Farncombe Estate Holdings Limited

Consolidated statement of comprehensive income for the year ended 31 December 2017

| | Note | 2017 £'000 | 2016 £'000 |
|---|------|----------------|---------------|
| Turnover | 5 | 11,895 | 10,924 |
| Cost of sales | | (7,791) | (6,686) |
| Gross profit | | 4,104 | 4,238 |
| Selling expenses | | (919) | (853) |
| Administrative expenses | | (7,249) | (5,529) |
| Loss from changes in fair value of investment property | | - | (1,051) |
| Reversal of impairment of property fixed assets | | - | 7,596 |
| Operating (loss)/profit | 9 | (4,064) | 4,401 |
| Bank interest receivable | | - | 3 |
| Interest payable and similar charges | 10 | (206) | (314) |
| (Loss)/profit on ordinary activities before taxation | | (4,270) | 4,090 |
| Tax on (loss)/profit on ordinary activities | 11 | - | 69 |
| (Loss)/profit for the financial year | | (4,270) | 4,159 |
| Other comprehensive income: | | | |
| Surplus on revaluation of fixed assets | | - | 1,970 |
| Total comprehensive (expense)/income for the year | | (4,270) | 6,129 |

Administrative expenses for the year ended 31 December 2017 includes the exceptional items associated with tangible assets write-off's and accelerated depreciation of £1,167,000 (2016: £Nil).

The notes on pages 12 to 26 form part of these financial statements.

Farncombe Estate Holdings Limited

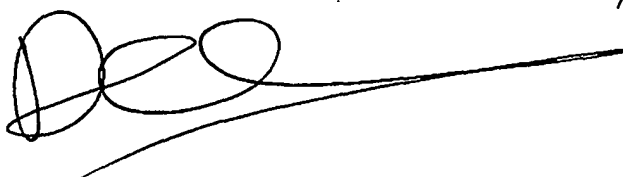
Group and company statement of financial position as at 31 December 2017

| | | Group | | Company | |
|---|------|---------------|---------------|---------------|---------------|
| | Note | 2017 | 2016 | 2017 | 2016 |
| | | £'000 | £'000 | £'000 | £'000 |
| Fixed assets | | | | | |
| Intangible assets | 12 | - | 12 | - | 12 |
| Tangible assets | 13 | 36,198 | 36,621 | 101 | 111 |
| Investment property | 14 | 2,797 | 2,797 | - | - |
| Investments | 15 | - | - | 20,061 | 20,588 |
| | | 38,995 | 39,430 | 20,162 | 20,711 |
| Current assets | | | | | |
| Inventories | 16 | 129 | 130 | - | - |
| Debtors: | | | | | |
| Amounts falling within one year | 17 | 1,105 | 1,050 | 8,526 | 5,465 |
| Amounts falling after one year | 18 | 1,440 | - | 1,440 | - |
| Cash at bank and in hand | | 1,311 | 1,259 | 701 | 850 |
| | | 3,985 | 2,439 | 10,667 | 6,315 |
| Creditors: amounts falling due within one year | 19 | (2,772) | (2,687) | (980) | (518) |
| Net current assets/ (liabilities) | | 1,213 | (248) | 9,687 | 5,797 |
| Creditors: amounts falling due after more than one year | 20 | (11,796) | (6,500) | (11,796) | (6,500) |
| Net assets | | 28,412 | 32,682 | 18,053 | 20,008 |
| Capital and reserves | | | | | |
| Called up share capital | 23 | 58,800 | 58,800 | 58,800 | 58,800 |
| Revaluation reserve | 24 | 1,970 | 1,970 | - | - |
| Profit and loss account | 25 | (32,358) | (28,088) | (40,747) | (38,792) |
| Total equity | | 28,412 | 32,682 | 18,053 | 20,008 |

As permitted by section 408 of the Companies Act 2006, the holding company's profit and loss account has not been included in these financial statements. The holding company's loss for the financial year was £1,955,000 (2016: loss of £4,183,000).

These financial statements on pages 8 to 26 were approved by the board of directors on 27/9/2018 and were signed on its behalf by:

A C Grahame
Director
Registered number: 02382336



Farncombe Estate Holdings Limited

Consolidated statement of changes in equity for the year ended 31 December 2017

| | Called up share capital | Revaluation reserve | Profit and loss account | Total equity |
|--|----------------------------|------------------------|----------------------------|---------------|
| | £'000 | £'000 | £'000 | £'000 |
| At 1 January 2016 | 58,800 | - | (32,247) | 26,553 |
| Profit and total comprehensive income for the financial year | - | 1,970 | 4,159 | 6,129 |
| At 31 December 2016 | 58,800 | 1,970 | (28,088) | 32,682 |
| Loss and total comprehensive expense for the financial year | - | - | (4,270) | (4,270) |
| At 31 December 2017 | 58,800 | 1,970 | (32,358) | 28,412 |

Company statement of changes in equity for the year ended 31 December 2017

| | Called up share capital | Profit and loss account | Total equity |
|--|----------------------------|----------------------------|---------------|
| | £'000 | £'000 | £'000 |
| At 1 January 2016 | 58,800 | (34,609) | 24,191 |
| Loss and total comprehensive expense for the financial year | - | (4,183) | (4,183) |
| At 31 December 2016 | 58,800 | (38,792) | 20,008 |
| Loss and total comprehensive expenses for the financial year | - | (1,955) | (1,955) |
| At 31 December 2017 | 58,800 | (40,747) | 18,053 |

The notes on pages 12 to 26 form part of these financial statements.

Farncombe Estate Holdings Limited

Consolidated cash flow statement for the year ended 31 December 2017

| | Note | 2017 £'000 | 2016 £'000 |
|---|------|----------------|----------------|
| Net cash used in operating activities | 26 | (1,676) | (691) |
| Cash flows from investing activities | | | |
| Purchase of tangible fixed assets | 13 | (2,422) | (1,939) |
| Proceeds of sale of tangible fixed assets | | - | 49 |
| Loans advanced to third parties | | (1,440) | - |
| Net cash used in investing activities | | (3,862) | (1,890) |
| Cash flows from financing activities | | | |
| Loans advanced | | 500 | 6,500 |
| Group loans advanced/(repaid) | | 5,296 | (3,350) |
| Interest paid | | (206) | (311) |
| Net cash generated from financing activities | | 5,590 | 2,839 |
| Increase in cash and cash equivalents | | 52 | 258 |
| Cash and cash equivalents at beginning of year | | 1,259 | 1,001 |
| Cash and cash equivalents at end of year (all cash balances) | | 1,311 | 1,259 |

The notes on pages 12 to 26 form part of these financial statements.

Farncombe Estate Holdings Limited

Notes to the financial statements for the year ended 31 December 2017

1 General information

Farncombe Estate Holdings Limited and its subsidiaries hold freehold property and land including hotels operated by the subsidiaries. The company is a private company limited by shares, incorporated and domiciled in the UK. The address of the registered office is Farncombe House, Broadway, Worcestershire, WR12 7LJ.

2 Statement of compliance

The Group and individual financial statements of Farncombe Estate Holdings Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

3 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated and separate financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

These financial statements are prepared on a going concern basis, under the historical cost convention as modified by the recognition of freehold and investment properties and certain financial assets and liabilities at fair value through profit and loss.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group and Company accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

The directors consider the going concern basis to be appropriate as, after considering financial projections for the group together with the cash and loan facilities available from the bank and the SCCL3 group, there is a reasonable expectation that the company and group have adequate resources to meet their obligations and continue in operational existence for the foreseeable future.

Basis of consolidation

The group financial statements consolidate the financial statements of the company and all its subsidiaries. Subsidiaries are those undertakings in which the group has power to govern financial and operating policies so as to obtain economic benefits. Intra-group sales and profits are eliminated fully on consolidation.

Investment property

Investment property, rented to external parties or to group undertakings which are not within the Farncombe Estate Holdings group, is carried at fair value determined annually by the directors, having periodic reference to external valuers and derived from the current market rents and investment property yields for comparable property, adjusted as necessary for the nature, location and condition of the specific property. No depreciation is provided and changes in fair value are recognised in profit and loss in the statement of comprehensive income.

Tangible fixed assets

Tangible fixed assets are stated in the statement of financial position at cost or valuation less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is calculated so as to write off the cost or valuation of tangible fixed assets less their estimated residual value over the expected useful economic lives of the assets concerned. Assets under construction are not depreciated until brought into use. The principal estimated useful lives range as follows:

Farncombe Estate Holdings Limited

Notes to the financial statements for the year ended 31 December 2017 (continued)

3 Summary of significant accounting policies (continued)

Tangible fixed assets (continued)

The principal estimated useful lives range as follows:

| | |
|---------------------|---------------|
| Freehold property | over 50 years |
| Fixtures & Fittings | 5 years |
| Plant and equipment | 3 to 10 years |

The group's freehold hotel and office buildings are carried at fair value, including the benefit of the hotel trading in the valuation. Fair values are determined from market based evidence and valuations are performed with sufficient regularity to ensure that the carrying amount does not differ from the fair value. Revaluation gains and losses in excess of cost are recognised in other comprehensive income and a revaluation reserve. If losses exceed previously recognised gains or previous impairments of cost are reversed, the amounts are recognised in the consolidated operating results.

Impairment reviews are carried out when indicators of potential impairment arise. Assets are impaired and a charge recognised to the extent that their value is unlikely to be recovered through resale or in their use within the business.

An assessment was carried out on the useful life of the assets which remained, and the existing depreciation policy being applied. It was concluded that given the timeframe in which refurbishments are now being carried out the 'Fixtures, Fittings and Equipment' (FF&E) useful life/depreciation period of 10 years is too long and as such the policy should be reduced to 5 years. This has resulted in an accelerated depreciation charge for the year of £0.6m. Due to the recent upgrade and refocusing in the Fish Hotel, a number of assets with some £0.3m value required accelerated depreciation to align the values to reflect the refurbishment undertaken in 2018.

Financial assets

Basic financial assets, including trade and other receivables, cash and bank balances are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

Financial liabilities

Basic financial liabilities, including trade and other payables, accruals and loans from banks and fellow group companies are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest. Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

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

Investments

Investments are stated at cost less any provisions for impairment which are made for amounts considered to represent a permanent diminution in value.

Farncombe Estate Holdings Limited

Notes to the financial statements for the year ended 31 December 2017 (continued)

3 Summary of significant accounting policies (continued)

Leased assets

Leases of assets that transfer substantially all the risks and rewards incidental to ownership are classified as finance leases. Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Costs in respect of operating leases are charged on a straight line basis over the lease term.

Inventories

Inventories are stated at the lower of cost and net realisable value. In general, cost is determined on a first in first out basis and includes delivery costs. Where necessary, provision is made for obsolete, slow moving and defective inventory. Net realisable value is the estimated or actual selling price less all further costs to be incurred to completion and disposal.

Turnover

Turnover is recognised to the extent that the group obtains the right to consideration in exchange for its performance. Turnover, which excludes VAT and sales between group companies, represents the value of work done and services supplied and is recognised in the period the work is done or services are provided to the customer. Amounts received from customers in advance of the provision of goods or services are included within accruals and deferred income.

Taxation

The charge for taxation is based on the result for the year as adjusted for disallowable items.

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements. Deferred tax is recognised on all timing differences at the reporting date. Deferred taxation assets are recognised only to the extent that the directors consider that it is probable that there will be suitable taxable profits from which the reversal of the underlying timing differences can be deducted.

Deferred tax, including tax in respect of a disposal of revalued property at the balance sheet valuation, is measured on an undiscounted basis at the tax rates that are expected to apply in the years in which timing differences reverse, based on tax rates and laws enacted or substantially enacted at the balance sheet date.

Exceptional items

Items that are material in size and unusual or infrequent in nature are disclosed separately as exceptional items in the relevant category within the consolidated statement of comprehensive income. The separate reporting of exceptional items helps to provide an indication of the group's underlying business performance. The principal items which may be included as exceptional are significant profits or losses on disposal of non-current assets, impairment of non-current assets and the costs and benefits associated with significant corporate, financial or operational restructuring.

Cash and cash equivalents

Cash and cash equivalents in the cash flow statement includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

Pensions

The cost of providing retirement benefits under defined contribution arrangements is charged to the statement of comprehensive income in the year to which they relate.

Farncombe Estate Holdings Limited

Notes to the financial statements for the year ended 31 December 2017 (continued)

4 Critical accounting judgements and estimation uncertainty

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, not always equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Useful economic lives of tangible assets

The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets.

An assessment was carried out on the useful life of the assets during the year ended 31 December 2017. Further details of this assessment can be found in the Tangible fixed assets section on the Summary of significant accounting policies (Note 3).

Carrying value of tangible assets

Tangible assets are assessed at each reporting date to determine whether there is any indication that the assets are impaired by reference to the cash generation of the hotel cash generating units and the fair values of other assets. Where there is any indication that an asset may be impaired, the carrying value of the asset is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

Investment and other freehold property

Investment properties and freehold property in use by the group is carried at fair value determined annually by the directors, having periodic reference to external valuers, but there is inevitably a degree of judgement involved in a valuation in respect of the factors applied including estimated rental values, trends in trading or identifying comparable property which could only be reliably tested by a sale in the open market.

Carrying values of investments in subsidiaries and recoverability of intercompany receivables

Investments in subsidiaries and intercompany receivables are carried at cost less provisions for impairment. Impairment is judged on the basis of expected future cash flows and trading in the subsidiaries and if there is evidence of impairment the carrying amount is reduced to its expected realisable value.

5 Turnover

Turnover consists of sales made in the UK and is analysed as follows;

| | 2017 | 2016 |
|----------------------------------|--------|--------|
| | £'000 | £'000 |
| Hotel services | 11,544 | 10,546 |
| Rental income and other services | 351 | 378 |
| | 11,895 | 10,924 |

Farncombe Estate Holdings Limited

Notes to the financial statements for the year ended 31 December 2017 (continued)

6 Directors' emoluments

| | 2017 | 2016 |
|--|-------|-------|
| | £'000 | £'000 |
| Aggregate emoluments (including benefits in kind) | 225 | 206 |
| Pension contributions in respect of 1 director (2016: 1) | 9 | 9 |
| | 234 | 215 |

The remuneration of the highest paid director for the year ended 31 December 2017 was £159,000 (2016: £162,000) and employer pension contributions were £9,000 (2016: £9,000).

7 Employee information

The average monthly number of staff (including executive directors) employed by the group during the year was:

| | 2017 | 2016 |
|-----------------------------|--------|--------|
| | Number | Number |
| Direct | 240 | 226 |
| Indirect and administration | 36 | 32 |
| | 276 | 258 |
| Staff costs | 2017 | 2016 |
| | £'000 | £'000 |
| Wages and salaries | 5,589 | 4,966 |
| Social security costs | 432 | 404 |
| Other pension costs | 207 | 197 |
| | 6,228 | 5,567 |

The average monthly number of staff (including executive directors) employed by the company was 36 (2016: 32). The staff costs included wages and salaries of £1,234,000 (2016: £1,207,000), social security costs of £148,000 (2016: £132,000) and pension costs of £79,000 (2016: £61,000).

Farncombe Estate Holdings Limited

Notes to the financial statements for the year ended 31 December 2017 (continued)

8 Key management compensation

Key management comprises the directors and senior management of the group. The compensation paid to key management for their services including pension contributions was £599,000 (2016: £551,000).

9 Operating (loss)/profit

The operating (loss)/profit is stated after charging/(crediting):

| | 2017 | 2016 |
|---|-------|-------|
| | £'000 | £'000 |
| Depreciation charge - owned tangible fixed assets (including accelerated depreciation of £0.9m in 2017) | 2,631 | 1,100 |
| Fees payable to the company's auditors for: | | |
| - The audit of the company and group financial statements | 21 | 20 |
| - The audit of the subsidiaries | 16 | 15 |
| Operating leases | | |
| - hire of plant and machinery | 56 | 61 |
| Loss/(profit) on disposal of fixed assets | 213 | (23) |
| Inventory recognised as an expense | 1,606 | 1,569 |

An assessment was carried out on the useful life of the assets for the year ended 31 December 2017. Further details of this assessment can be found in the Tangible fixed assets section on the Summary of significant accounting policies (Note 3).

| | 2017 | 2016 |
|--|-------|-------|
| | £'000 | £'000 |
| Bank interest payable | 123 | 5 |
| Interest payable to group undertakings | 83 | 309 |
| | 206 | 314 |

Farncombe Estate Holdings Limited

Notes to the financial statements for the year ended 31 December 2017 (continued)

10 Tax on (loss)/profit on ordinary activities

| | 2017 | 2016 |
|--|-------|-------|
| | £'000 | £'000 |
| Current tax | | |
| Group relief in respect of the prior year | - | 69 |
| Tax credit on (loss)/profit on ordinary activities | - | 69 |

No tax arose on the revaluation gain in other comprehensive income in 2016.

Factors affecting the tax credit for the year

The tax credit assessed for the year differs from the standard rate of corporation tax in the UK of 19.25% (2016: 20%). The differences are explained below:

| | 2017 | 2016 |
|---|---------|---------|
| | £'000 | £'000 |
| (Loss)/profit on ordinary activities before taxation | (4,270) | 4,090 |
| (Loss)/profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19.25% (2016: 20%) | (822) | 818 |
| Effects of: | | |
| Changes in property values not taxable/deductible for tax purposes | - | (1,309) |
| Non-taxable losses | 102 | - |
| Other expenses not deductible for tax purposes | 36 | 122 |
| Deferred tax asset not recognised in respect of losses | 684 | 369 |
| Adjustments in respect of prior periods | - | (69) |
| Tax credit for the year | - | (69) |

11 Intangible assets

| Group and company | Trademark £'000 |
|---|--------------------|
| Cost and net book value at 1 January 2017 | 12 |
| Amortisation in the year | (12) |
| Net book value at 31 December 2017 | - |

Farncombe Estate Holdings Limited

Notes to the financial statements for the year ended 31 December 2017 (continued)

12 Tangible assets

| Group | Freehold property | Plant & equipment | Assets under construction | Total |
|---------------------------------|----------------------|----------------------|------------------------------|---------------|
| | £'000 | £'000 | £'000 | £'000 |
| Cost or valuation | | | | |
| At 1 January 2017 | 32,554 | 5,581 | 670 | 38,805 |
| Additions | - | 1,250 | 1,172 | 2,422 |
| Transfers | | 670 | (670) | - |
| Disposals | - | (1,564) | - | (1,564) |
| At 31 December 2017 | 32,554 | 5,936 | 1,172 | 39,662 |
| Accumulated depreciation | | | | |
| At 1 January 2017 | - | 2,184 | - | 2,184 |
| Charge for the year | 621 | 2,010 | - | 2,631 |
| Disposals | - | (1,351) | - | (1,351) |
| At 31 December 2017 | 621 | 2,843 | - | 3,464 |
| Net book amount | | | | |
| At 31 December 2017 | 31,933 | 3,093 | 1,172 | 36,198 |
| At 31 December 2016 | 32,554 | 3,397 | 670 | 36,621 |

The freehold property and investment properties were valued at 31 December 2016 by an independent professionally qualified surveyor on a market value basis and subject to existing tenancies in accordance with the RICS Red Book valuation standards. The directors have assessed the market and status of the properties in 2017 and consider that there has been no significant change in values.

As a result of a number of valuations and additions over the years, the directors consider that they do not have sufficient reliable evidence to determine the historical cost of freehold property or investment property (note 14).

Farncombe Estate Holdings Limited

Notes to the financial statements for the year ended 31 December 2017 (continued)

13 Tangible assets (continued)

| Company | Plant & equipment £'000 | Assets under construction £'000 | Total £'000 |
|---------------------------------|-------------------------------|---------------------------------------|----------------|
| Cost | | | |
| At 1 January 2017 | 148 | - | 148 |
| Additions | 11 | 35 | 46 |
| Disposals | (12) | - | (12) |
| At 31 December 2017 | 147 | 35 | 182 |
| Accumulated depreciation | | | |
| At 1 January 2017 | 37 | - | 37 |
| Charge for the year | 56 | - | 46 |
| Disposals | (12) | - | (12) |
| At 31 December 2017 | 81 | - | 81 |
| Net book amount | | | |
| At 31 December 2017 | 60 | 35 | 101 |
| At 31 December 2016 | 111 | - | 111 |

An assessment was carried out on the useful life of the assets for the year ended 31 December 2017. Further details of this assessment can be found in the Tangible fixed assets section on the Summary of significant accounting policies (Note 3).

13 Investment property

Group

| | £'000 |
|----------------------------|--------------|
| Valuation | |
| At 1 January 2017 | 2,797 |
| Revaluation in year | - |
| At 31 December 2017 | 2,797 |

Farncombe Estate Holdings Limited

Notes to the financial statements for the year ended 31 December 2017 (continued)

14 Investments

| Company | Shares in group undertakings £'000 |
|--|---------------------------------------|
| Cost | |
| At 1 January 2017 and 31 December 2017 | 39,999 |
| Impairment | |
| At 1 January 2017 | 19,411 |
| Impairment in the year | 527 |
| At 31 December 2017 | 19,938 |
| Net book value | |
| At 31 December 2017 | 20,061 |
| At 31 December 2016 | 20,588 |

Details of the subsidiary undertakings as at 31 December 2017, which are all registered at Farncombe House, Broadway, Worcestershire, WR12 7LJ, are as follows:

| Name | Country of incorporation | Description of shares held | Proportion of nominal value of issued shares or capital held | Principal activity |
|---------------------------|--------------------------|----------------------------|--|--------------------|
| Farncombe Estate Limited | England and Wales | Ordinary | 100% | Property services |
| Dormy House Hotel Limited | England and Wales | Ordinary | 100% | Hotel |
| The Fish Hotel Limited | England and Wales | Ordinary | 100% | Hotel |
| Foxhill Manor Limited | England and Wales | Ordinary | 100% | Dormant |

The directors believe that the carrying value of the investments is supported by their underlying net assets and trading prospects.

Farncombe Estate Holdings Limited

Notes to the financial statements for the year ended 31 December 2017 (continued)

15 Inventories

| | Group | | Company | |
|-------------------------------|-------|-------|---------|-------|
| | 2017 | 2016 | 2017 | 2016 |
| | £'000 | £'000 | £'000 | £'000 |
| Raw materials and consumables | 40 | 21 | - | - |
| Goods for resale | 89 | 109 | - | - |
| | 129 | 130 | - | - |

There is no material difference between the statement of financial position amount of inventories and their replacement cost.

16 Debtors: Amounts falling within one year

| | Group | | Company | |
|--------------------------------------|-------|-------|---------|-------|
| | 2017 | 2016 | 2017 | 2016 |
| | £'000 | £'000 | £'000 | £'000 |
| Amounts falling due within one year: | | | | |
| Trade debtors | 340 | 271 | 7 | 9 |
| Amounts owed by group undertakings | - | 218 | 8,373 | 5,261 |
| Other debtors | 248 | 124 | 17 | 110 |
| Prepayments and accrued income | 517 | 437 | 129 | 85 |
| | 1,105 | 1,050 | 8,526 | 5,465 |

Trade debtors are stated after provision for impairment of £nil (2016: £nil) for both the group and company.

Amounts owed by group undertakings in 2016 are repayable on demand, unsecured and interest free. They are stated after provision for impairment of £nil.

Farncombe Estate Holdings Limited

Notes to the financial statements for the year ended 31 December 2017 (continued)

17 Debtors: Amounts falling after one year

During December 2017 a loan of £1.44m was provided to a third party, secured against property, with interest at market value. There is a put and call option associated with the loan which is exercisable after 2 years and not considered to have a material fair value at the year-end.

18 Creditors: amounts falling due within one year

| | Group | | Company | |
|------------------------------------|--------------|--------------|------------|------------|
| | 2017 | 2016 | 2017 | 2016 |
| | £'000 | £'000 | £'000 | £'000 |
| Bank loan | 500 | - | 500 | - |
| Trade creditors | 710 | 742 | 123 | 132 |
| Amounts owed to group undertakings | - | 113 | - | 34 |
| Taxation and social security | 107 | 164 | 48 | - |
| Accruals and deferred income | 1,455 | 1,668 | 309 | 352 |
| | 2,772 | 2,687 | 980 | 518 |

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

The bank loan of £500,000 is a revolving overdraft facility which bears interest at 1.5% over LIBOR.

19 Creditors: amounts falling due after more than one year

| | Group | | Company | |
|------------------------------------|---------------|--------------|---------------|--------------|
| | 2017 | 2016 | 2017 | 2016 |
| | £'000 | £'000 | £'000 | £'000 |
| Amounts owed to group undertakings | 5,296 | - | 3,856 | - |
| Bank loans | 6,500 | 6,500 | 6,500 | 6,500 |
| | 11,796 | 6,500 | 10,356 | 6,500 |

The bank loan of £6,500,000 bears interest at 1.5% over LIBOR and is repayable on 3 December 2021.

Loans of £5,296,000 at 31 December 2017 (2016: £nil) from a parent undertaking to the company form part of the overall long-term financing structure and bear interest at a rate of 4.8% over LIBOR. The loans are repayable on 11th December 2020.

Farncombe Estate Holdings Limited

Notes to the financial statements for the year ended 31 December 2017 (continued)

20 Deferred taxation

Analysis of unrecognised assets:

| | Group | | Company | |
|---|-------|-------|---------|-------|
| | 2017 | 2016 | 2017 | 2016 |
| Tax effect of timing differences because of: | £'000 | £'000 | £'000 | £'000 |
| Deferral of capital allowances compared to depreciation | 544 | 339 | 51 | 35 |
| Other timing differences | 9 | 4 | 3 | 1 |
| Losses | 3,850 | 3,693 | 1,658 | 1,495 |
| | 4,403 | 4,036 | 1,712 | 1,531 |

No deferred tax assets are recognised as the directors are, as yet, uncertain, when the group and company will utilise the assets.

Changes to reduce the UK corporation tax rate to 19% from 1 April 2017 and to 17% from 1 April 2020 have been substantively enacted and 17% is accordingly applied to the deferred taxation disclosures at 31 December 2017 (2016: 17%).

21 Financial instruments

There are no financial instruments measured at fair value. All material cash balances, trade debtors, prepayments, trade creditors, other creditors, accruals, loans and amounts owed to group undertakings are measured at amortised cost which is considered to be the same as the fair value.

22 Pensions

Pension arrangements are provided through a stakeholder scheme with benefits to pensioners based on contributions made. The total pension costs for the year was £207,000 (2016: £197,000) and at 31 December 2017 there were contributions unpaid of £64,000 (2016: £26,000).

23 Called up share capital

| Group and company | 2017 | 2016 |
|--|--------|--------|
| | £'000 | £'000 |
| Allotted, called up and fully paid | | |
| 58,800,316 ordinary shares of £1 each (2016: 58,800,316) | 58,800 | 58,800 |

Farncombe Estate Holdings Limited

Notes to the financial statements for the year ended 31 December 2017 (continued)

24 Reserves

The profit and loss account relates to cumulative gains and losses recognised in the statement of comprehensive income.

The revaluation reserve represents revaluation gains and losses in excess of cost on freehold properties which are recognised in other comprehensive income and the revaluation reserve.

25 Reconciliation of (loss)/profit for the financial year to net cash outflow used in operating activities

| | 2017 | 2016 |
|--|---------|---------|
| | £'000 | £'000 |
| (Loss)/profit for the financial year | (4,270) | 4,159 |
| Taxation | - | (69) |
| Net Interest payable and similar charges | 206 | 311 |
| Operating (loss)/profit | (4,064) | 4,401 |
| Depreciation of tangible fixed assets | 2,631 | 1,100 |
| Amortisation of intangible assets | 12 | - |
| Revaluation movement in respect of investment property | - | 1,051 |
| Reversal of impairment of property fixed assets | - | (7,596) |
| Loss/(profit) on disposal of fixed assets | 213 | (23) |
| Working capital movements: | | |
| Decrease/(increase) in inventories | 1 | (3) |
| (Increase)/decrease in debtors | (55) | 17 |
| (Decrease)/increase in creditors | (415) | 362 |
| Net cash used in operating activities | (1,677) | (691) |

Farncombe Estate Holdings Limited

Notes to the financial statements for the year ended 31 December 2017 (continued)

26 Commitments and contingencies

There were £837,000 (2016: £420,000) of capital commitments, contracted but not provided for, in the group at 31 December 2017. The company had no capital commitments (2016: £nil).

27 Operating lease commitments

The company has no operating lease commitments. The group had commitments under non-cancellable operating leases as follows:

| | 2017 | 2016 |
|--------------------------------------|-------|-------|
| | £'000 | £'000 |
| Payments falling due: | | |
| Within one year | 41 | 23 |
| After one year but within five years | 43 | 19 |
| | 84 | 42 |

The group had commitments under non-cancellable operating leases relate to Plant & equipment.

28 Ultimate controlling party and related party transactions

During the year the upstream group completed a restructuring of its business interests. At 31 December 2017, the company is a wholly owned subsidiary of SCCL3 Limited, a company registered in the United Kingdom.

SCCL3 Limited is a wholly owned subsidiary of SHL3BT Limited, a company incorporated in Guernsey. The controlling parties of SH3BT Limited are the trustees of the SIB3 Business Trust.

SCCL3 Limited issued £5,295,000 of loan notes to Farncombe Estate Holdings Limited of which £nil had been paid by 31 December 2016. Interest of £82,667 has been paid during the period and the loan note balance outstanding as at 31 December 2016 was £5,295,000. Further details of the loan notes are included in note 20.

Transaction with directors who are related parties totalled £9,000 in the year.