

**Sykes Cottages Limited**

**Strategic report, Directors' report and  
financial statements**

**Registered number 4469189**

**Year ended 30 September 2019**



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## Strategic report

The Directors present their strategic report for the year ended 30 September 2019.

Sykes Cottages Ltd continue to deliver a holiday letting agency service in the UK and Ireland. We provide multi-channel marketing, to reach millions of customers on and offline. Our booking management service covers a portfolio of over 15,600 cottages in the UK and Ireland.

### Business review

#### *Fair review of the business*

The profit and loss account is set out on page 8, showing an operating profit for the year ended 30 September 2019 of £9,825,000 (2018: £6,988,000). The Directors are satisfied with the trading performance and will continue to develop the existing activities of the Company.

During the year, the Company increased the number of properties available for rental and at 30 September 2019 the Company had a stock of 15,600 live properties (2018: 10,686). No meaningful market share data is available but by virtue of this stock increase, the business believes its market share has increased.

Sykes Cottages Limited acquired 100% of the ordinary share capital of the following companies during the year:

- Menai Cottages Limited (14 January 2019)
- NZ Bachcare HoldCo Limited (1 April 2019)

Sykes Cottages Limited acquired the trade and assets of Yorkshire Coastal Cottages on 12 April 2019. The Group acquired 80% of the share capital of Bachcare Limited on 1 April 2019.

Sykes Cottages Limited acquired 100% of the share capital of Coast and Country Holidays Limited on 4 October 2019, 100% of the share capital of Carbis Bay Holidays Limited on 28 November 2019 and 100% of the share capital of Potter TopCo Limited on 18 December 2019. The Group also acquired the remaining 20% of the share capital of Bachcare Limited on 28 October 2019. The initial accounting is incomplete for these acquisitions as at the date of authorising these financial statements, and in line with IFRS 3.B66, no further details of these acquisitions are included within these financial statements.

#### *Key financial indicators*

The Company's key financial and other performance indicators during the year were as follows:

	Unit	2019	2018
Revenue	£000	70,720	46,521
Gross profit margin	%	64	63
Operating profit margin	%	14	15
Current ratio		1.5	1.3

#### *Principal risks and uncertainties*

The Company operates in a competitive market with regards to price and stock acquisition. The Company maintains a competitive pricing policy and has strong relationships with property owners in order to minimise such risks.

The Company's activities expose it to a number of financial risks including liquidity risk, foreign currency risk, interest rate risk, cash flow risk and price risk.

There are concerns about the implications surrounding the UK's departure from the EU. Economic conditions, currency volatility and consumer confidence levels could all be adversely affected. For the company specifically, if consumer confidence levels decrease, then there is a potential impact on the number of holiday bookings made. We believe our strong domestic based market position, combined with holidays remaining a high priority consideration for the UK consumer that we will remain in a position to deliver growth.

The Company does not use derivative financial instruments for speculative purposes. The Company enters into financial derivative contracts to mitigate financial risk and details are included below under the relevant risk heading.

## **Strategic report (continued)**

### **Financial instruments**

#### **Objectives and policies**

#### **Price risk, credit risk, liquidity risk and cash flow risk**

##### **Price risk**

The prices of the Company's products are dynamically managed.

##### **Foreign currency risk**

The Company makes significant purchases and receives monies from sales denominated in foreign currency. In order to mitigate the risk of movements in foreign currency rates, the Company enters into foreign currency derivative contracts.

##### **Credit risk**

The Company has a large number of small customers, but the Directors believe that credit risk is mitigated by the fact that customers are required to pay before the holiday is taken.

##### **Liquidity risk**

The Company's cash balances and deposits are managed to provide a balance between maximising interest rate returns and maintaining access to working capital. We ensure our short term deposits are flexible and accessible if required. Working capital requirements are monitored on an ongoing basis, so the directors do not consider there to be a significant risk in this area.

##### **Interest rate risk**

Interest is credited on the Company's cash balances at variable rates. In order to mitigate the risk of movements in interest rates, the Company has put in place an interest rate cap in relation to the third party debt.

##### **Cash flow risk**

The directors consider that the main risk concerning cash flow relates to unexpected reductions in demand, unpaid credit balances and change in interest rates. The company maintains a flexible cost structure that the directors believe would mitigate the demand risk and unpaid credit balances and interest rate risk are constantly monitored.

Approved by the Board on 25 February 2020 and signed on its behalf by:



M S Graham  
Director

1 City Place  
Queens Road  
Chester  
CH1 3BQ

## **Directors' report**

The Directors present their report and the financial statements for the year ended 30 September 2019.

### **Political contributions**

The Company made no political donations or incurred any political expenditure in the year.

### **Proposed dividend**

The Directors do not recommend a payment of a dividend (2018: £nil).

### **Directors of the Company**

The Directors who held office during the year were as follows:

C P Sykes (resigned 28 October 2019)

M S Graham

G Donoghue

### **Disclosure of information to auditor**

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

### **Other information**

An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial year have been included in the Strategic Report on page 1.

Approved by the Board on 25 February 2020 and signed on its behalf by:



**M S Graham**

Director

One City Place  
Chester  
CH1 3BQ

**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS**

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

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 judgements 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;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



KPMG LLP

1 St Peter's Square

Manchester

M2 3AE

United Kingdom

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYKES COTTAGES LIMITED**

### **Opinion**

We have audited the financial statements of Sykes Cottages Limited ("the company") for the year ended 30 September 2019 which comprise the Profit and Loss Account and Other Comprehensive Income, Balance Sheet, Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 September 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; 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 are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

### **The impact of uncertainties due to the UK exiting the European Union on our audit**

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, its effects are subject to unprecedented levels of uncertainty of consequences, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

### **Going concern**

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYKES COTTAGES LIMITED (CONTINUED)**

### **Going concern (continued)**

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

### **Strategic report and Directors' report**

The directors are responsible for the Strategic report and the Directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the Strategic report and Directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the Strategic report and Directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

### **Matters on which we are required to report by exception**

Under the Companies Act 2006 we are required 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

We have nothing to report in these respects.

### **Directors' responsibilities**

As explained more fully in their 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; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYKES COTTAGES LIMITED (CONTINUED)**

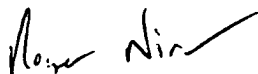
### **Auditor's responsibilities**

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

### **The purpose of our audit work and to whom we owe our responsibilities**

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.



**Roger Nixon (Senior Statutory Auditor)**  
for and on behalf of KPMG LLP  
*Chartered Accountants*  
One St Peters Square  
Manchester  
M2 3AE  
28 February 2020

**Profit and loss account and other comprehensive income**  
*for the year ended 30 September 2019*

	<i>Note</i>	<b>2019</b> <b>£000</b>	<b>2018</b> <b>£000</b>
<b>Turnover</b>	<b>2</b>	<b>70,720</b>	<b>46,521</b>
Cost of sales		<b>(25,334)</b>	<b>(17,392)</b>
<b>Gross profit</b>		<b>45,386</b>	<b>29,129</b>
Administrative expenses - normal		<b>(31,617)</b>	<b>(20,641)</b>
Administrative expenses - exceptional	<b>3</b>	<b>(3,944)</b>	<b>(1,500)</b>
<b>Operating profit</b>	<b>3</b>	<b>9,825</b>	<b>6,988</b>
Other interest receivable and similar income	<b>6</b>	<b>627</b>	<b>640</b>
Interest payable and similar charges	<b>7</b>	<b>(3,773)</b>	<b>(570)</b>
<b>Profit before taxation</b>		<b>6,679</b>	<b>7,058</b>
Tax on profit	<b>8</b>	<b>(1,306)</b>	<b>(552)</b>
<b>Profit for the financial year</b>		<b>5,373</b>	<b>6,506</b>
<b>Other comprehensive income</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive income for the year</b>		<b>5,373</b>	<b>6,506</b>

Turnover and operating profit are derived wholly from continuing operations.


The financial statements include the notes on pages 11 to 36.

**Balance sheet**  
*At 30 September 2019*

	<i>Note</i>	<b>2019</b> <b>£000</b>	<b>£000</b>	<b>2018</b> <b>£000</b>	<b>£000</b>
<b>Fixed assets</b>					
Tangible fixed assets	9	2,168		1,781	
Intangible fixed assets – goodwill	10	18,768		6,584	
Intangible fixed assets – other intangibles	10	21,033		8,394	
Investments	12	106		15,852	
			<b>42,075</b>		<b>32,611</b>
<b>Current assets</b>					
Debtors (including £16,740,000 (2018: £16,924,000) due after more than one year)	13	31,666		27,371	
Cash at bank and in hand		14,373		7,093	
		<b>46,039</b>		<b>34,464</b>	
<b>Creditors: amounts falling due within one year</b>	14	<b>(30,784)</b>		<b>(25,826)</b>	
<b>Net current assets</b>		<b>15,255</b>		<b>8,638</b>	
<b>Total assets less current liabilities</b>			<b>57,330</b>		<b>41,249</b>
Creditors: amounts falling due after more than one year	15	(26,669)		(17,000)	
Deferred tax liability	16	(2,944)		(1,188)	
			<b>(29,613)</b>		<b>(18,188)</b>
<b>Net assets</b>			<b>27,717</b>		<b>23,061</b>
<b>Capital and reserves</b>					
Called up share capital	18	-		-	
Profit and loss account		27,717		23,061	
<b>Shareholders' funds</b>			<b>27,717</b>		<b>23,061</b>

The financial statements include the notes on pages 11 to 36.

These financial statements were approved by the board of directors on 25 February 2020 and were signed on its behalf by:

  
M S Graham  
Director

Company registered number: 4469189

**Statement of changes in equity**  
*At 30 September 2019*

	<b>Called up share capital</b>	<b>Profit and loss account</b>	<b>Total equity</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Balance at 1 October 2017	-	16,555	16,555
<b>Total comprehensive income for the year</b>			
Profit	-	6,506	6,506
	<hr/>	<hr/>	<hr/>
Total comprehensive income for the year	-	6,506	6,506
	<hr/>	<hr/>	<hr/>
<b>Balance at 30 September 2018</b>	<b>-</b>	<b>23,061</b>	<b>23,061</b>
	<hr/>	<hr/>	<hr/>
	<b>Called up share capital</b>	<b>Profit and loss account</b>	<b>Total equity</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Balance at 1 October 2018	-	23,061	23,061
Transition to IFRS 15 (net of tax)	-	(717)	(717)
	<hr/>	<hr/>	<hr/>
<b>Balance at 1 October 2018 (adjusted balance)</b>	<b>-</b>	<b>22,344</b>	<b>22,344</b>
	<hr/>	<hr/>	<hr/>
<b>Total comprehensive income for the year</b>			
Profit	-	5,373	5,373
	<hr/>	<hr/>	<hr/>
Total comprehensive income for the year	-	5,373	5,373
	<hr/>	<hr/>	<hr/>
<b>Balance at 30 September 2019</b>	<b>-</b>	<b>27,717</b>	<b>27,717</b>
	<hr/>	<hr/>	<hr/>

The financial statements include the notes on pages 11 to 36.

## Notes

*(forming part of the financial statements)*

### 1 Accounting policies

Sykes Cottages Limited (the "Company") is a private Company incorporated, domiciled and registered in England. The registered number is 4469189 and the registered address is One City Place, Queens Road, Chester, CH1 3BQ.

The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the company as an individual undertaking and not about its group.

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101").

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company's ultimate parent undertaking, Sykes Cottages Holdings Limited includes the Company in its consolidated financial statements. The consolidated financial statements of Sykes Cottages Holdings Limited are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from One, St Peter's Square, Manchester, M2 3DE.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a cash flow statement and related notes;
- comparative period reconciliations for share capital, tangible fixed assets, intangible assets and investment properties;
- disclosures in respect of capital management;
- the effects of new but not yet effective IFRSs;
- disclosures in respect of the compensation of key management personnel; and
- Details of transactions with a management entity that provides key management personnel services to the company.

As the consolidated financial statements of Sykes Cottages Holdings Limited include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- Certain disclosures required by IFRS 13 *Fair Value Measurement* and the disclosures required by IFRS 7 *Financial Instrument Disclosures*.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

### Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 1, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant and are reviewed on an ongoing basis. Actual results could differ from these estimates and any subsequent changes are accounted for with an effect on income at the time such updated information becomes available.

The most critical accounting policies in determining the financial condition and results of the Group are those requiring the greatest degree of subjective or complex judgements and estimation. These relate to the valuation of intangibles arising on acquisition (see 1.13 and note 11) and capitalisation of internal development costs see note (1.6, 1.8 and note 10).

## **Notes (continued)**

### **1 Accounting policies (continued)**

#### **Critical accounting judgements and key sources of estimation uncertainty (continued)**

##### **Valuation of intangibles arising on acquisition**

Due to the inherent uncertainty involved in forecasting and discounting future cash flows this is considered a critical estimate. The estimates used in the valuation of the intangible assets are considered to have a significant risk of causing a material misstatement, specifically; the estimation of future cash flows, the useful economic life of the asset, the use of the most appropriate valuation methodology and the selection of a suitable discount rate.

##### **Capitalisation of internal development costs**

Due to the inherent uncertainty involved in determining whether costs are capital or expenditure this is considered a critical judgement. The judgement used in the capitalisation of internal development costs are considered to have a significant risk of causing a material misstatement, specifically; the judgement on the related development as capital in nature i.e. enhancement or expenditure i.e. operational or maintenance.

##### **1.1 Going concern**

The Directors have considered the future trading prospects of the business together with the level of its cash resources, taking into account reasonable sensitivities, and consider the going concern assumption to be appropriate. The financial statements have been prepared on a going concern basis for this reason.

##### **1.2 Foreign currency**

Transactions in foreign currencies are translated to the Company's functional currencies at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account.

##### **1.3 Financial instruments**

###### **(i) Recognition and initial measurement**

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

###### **(ii) Classification and subsequent measurement**

###### **Financial assets**

###### **(a) Classification**

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

## **Notes (continued)**

### **1 Accounting policies (continued)**

#### **1.3 Financial instruments**

##### **(ii) Classification and subsequent measurement (continued)**

###### **Financial assets**

###### **(a) Classification (continued)**

A debt investment is measured at FVOCI if it meets both of the following conditions:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets.

###### **Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

###### **(b) Subsequent measurement and gains and losses**

**Financial assets at FVTPL** - these assets (other than derivatives designated as hedging instruments) are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

**Financial assets at amortised cost** - These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

**Debt investments at FVOCI** - these assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

###### **Financial liabilities and equity**

Financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and
- (b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

## **Notes (continued)**

### **1 Accounting policies (continued)**

#### **1.3 Financial instruments (continued)**

##### **(ii) Classification and subsequent measurement (continued)**

###### ***Financial liabilities and equity (continued)***

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

##### **(iii) Derivative financial instruments and hedging**

###### ***Derivative financial instruments***

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

###### ***Fair value hedges***

Where a derivative financial instrument is designated as a hedge of the variability in fair value of a recognised asset or liability or an unrecognised firm commitment, all changes in the fair value of the derivative are recognised immediately in the income statement. The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged (even if it is normally carried at cost or amortised cost) and any gains or losses on remeasurement are recognised immediately in the income statement (even if those gains would normally be recognised directly in reserves).

##### **(iv) Impairment**

The company recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost, debt investments measured at FVOCI and contract assets (as defined in IFRS 15).

The company measures loss allowances at an amount equal to lifetime ECL, except for other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition, which are measured as 12-month ECL.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the company's historical experience and informed credit assessment and including forward-looking information.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the company is exposed to credit risk.

###### ***Measurement of ECLs***

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

###### ***Write-offs***

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

## **Notes (continued)**

### **1 Accounting policies (continued)**

#### **1.4 Classification of financial instruments issued by the Company**

Following the adoption of IAS 32, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
- (b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

#### **1.5 Non-derivative financial instruments**

Non-derivative financial instruments comprise trade and other debtors, cash and cash equivalents, loans and borrowings, and trade and other creditors.

##### *Trade and other debtors*

Trade and other debtors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

##### *Trade and other creditors*

Trade and other creditors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

##### *Cash and cash equivalents*

Cash and cash equivalents comprise cash balances.

##### *Interest-bearing borrowings*

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

#### **1.6 Derivative financial instruments and hedging**

##### *Derivative financial instruments*

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

##### *Fair value hedges (interest rate swaps)*

Where a derivative financial instrument is designated as a hedge of the variability in fair value of a recognised asset or liability or an unrecognized firm commitment, all changes in the fair value of the derivative are recognised immediately in the income statement. The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged (even if it is normally carried at cost or amortised cost) and any gains or losses on remeasurement are recognised immediately in the income statement (even if those gains would normally be recognised directly in reserves).

## **Notes (continued)**

### **1 Accounting policies (continued)**

#### **1.7 Tangible fixed assets**

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets.

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses. Lease payments are accounted for as described below.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Land is not depreciated. The estimated useful lives are as follows:

- Computer equipment	- 25% per annum on cost
- Office furniture & equipment	- 25% per annum on cost
- Plants & Machinery	- 25% per annum on cost
- Land & Buildings	- 22% per annum on cost (land is not depreciated)

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

#### **1.8 Intangible assets**

##### **Research and development**

Expenditure on research activities is recognised in the profit and loss account as an expense as incurred.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Company intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Company can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve a plan or design for the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads and capitalised borrowing costs. Other development expenditure is recognised in the profit and loss account as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

##### **Amortisation**

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

Brands (acquired)	10 years
Owner contracts (acquired)	6-9 years
Customer database (acquired)	5 years
Capitalised software development costs	3-4 years
Goodwill	indefinite life

#### **1.9 Employee benefits**

##### **Defined contribution plans**

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

## **Notes (continued)**

### **1 Accounting policies (continued)**

#### **1.10 Turnover**

Turnover represents amounts chargeable, net of value added tax, in respect of the sale of goods and services to customers.

Income from all goods and services except for Annual membership is recognised at the point of booking confirmation or the point at which the service is provided. This is when the transfer of control of the goods or services transfers to the customer. Income relating to Annual membership is recognised evenly over the year as this is when the customer has control of the service.

Under IFRS15, revenue principally is recognised at the transfer of control of the goods to the customer whereas IAS 18 revenue recognition was dependent on the transfer of risks and rewards. The only significant change identified is in timing of revenue for Annual membership and the impact is disclosed in 1.15 Changes in Significant accounting policies.

#### **1.11 Expenses**

##### *Operating lease payments*

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease. Lease incentives received are recognised in the profit and loss account as an integral part of the total lease expense.

##### *Interest receivable and Interest payable*

Interest payable and similar charges include interest payable and net foreign exchange losses that are recognised in the profit and loss account (see foreign currency accounting policy). Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the profit and loss account on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

#### **1.12 Taxation**

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

## **Notes (continued)**

### **1 Accounting policies (continued)**

#### **1.13 Business combinations**

All business combinations are accounted for by applying the acquisition method. Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

On a transaction-by-transaction basis, the Group elects to measure non-controlling interests, which have both present ownership interests and are entitled to a proportionate share of net assets of the acquire in the event of liquidation, either at its fair value or at its proportionate interest in the recognised amount of the identifiable net assets of the acquire at the acquisition date. All other non-controlling interests are measured at their fair value at the acquisition date.

#### **1.14 Goodwill**

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment in the investee.

## Notes (continued)

### 1 Accounting policies (continued)

#### 1.15 Changes in Significant accounting policies

The Group has initially applied IFRS 15 from 1 October 2018. A number of other new standards are effective from 1 October 2018 but they do not have a material effect on the Group's financial statements. The effect of initially applying the standard is attributed to the later recognition of the annual membership.

#### ● IFRS 9 Financial Instruments

The Company is required to adopt IFRS 9 from 1 October 2018. The Company has assessed the estimated impact that the initial application of IFRS 9 will have on its financial statements and there is no significant impact.

#### ● IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 'Construction Contracts' and IFRIC 13 'Customer Loyalty Programmes'. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement. In accordance with IAS 18 Sykes recognised Annual registration fees at the time the property was available for sale on the website and subsequent anniversaries, as the fee was committed on contract agreement. Under IFRS 15 the Annual registration fee is recognised evenly over the year as this is when the customer has control of the service.

Sykes cottages has applied the retrospective method (also called 'cumulative effect method') for transition to IFRS 15, whereby the cumulative effect of the initial application of IFRS 15 is presented in the opening balance as at 1st October 2018. Accordingly, the comparative information for 2017/2018 was not restated. Instead it was accounted for according to the standards for revenue recognition effective during the 2017/2018 financial year.

The following table summarise the impact of adopting the new reporting standard IFRS 15 on the Group's financial statements.

#### Balance Sheet (Extract)

	1 October 2018 As originally presented £000	IFRS 15 £000	1 October 2018 As restated £000
<b>Current Liabilities</b>			
Trade payables	(2,827)	-	(2,827)
Amounts owed to group undertakings	(12,786)	-	(12,786)
Taxation and social security	(1,241)	-	(1,241)
Other creditors	(5,938)	(717)	(6,655)
Accruals	(3,034)	-	(3,034)
<b>Total Current liabilities</b>	<b>(25,826)</b>	<b>(717)</b>	<b>(26,543)</b>
<b>Total Liabilities</b>	<b>(44,014)</b>	<b>(717)</b>	<b>(44,731)</b>
<b>Net Liabilities</b>	<b>23,061</b>	<b>(717)</b>	<b>22,344</b>
<b>Capital and reserves</b>			
Retained earnings	23,061	(717)	22,344
	<b>23,061</b>	<b>(717)</b>	<b>22,344</b>

## Notes (continued)

### 1 Accounting policies (continued)

#### 1.16 Adopted IFRS not yet applied

The following adopted IFRSs have been issued but have not yet been applied by the Group in these financial statements. The Group is currently assessing the effect of these standards on the financial statements.

##### ● IFRS 16 Leases

The group is required to adopt IFRS 16 Leases from 1 October 2019 which replaces IAS 17 'Leases'. The group has assessed the estimated impact that initial application of IFRS 16 will have on its consolidated financial statements, as described below.

IFRS 16 introduces a single, on balance-sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

The group will recognise new assets and liabilities for its operating leases of Properties, vehicles, and office equipment. The nature of expenses related to those leases will now change because the group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the group recognised operating lease expenses on a straight line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

No significant impact is expected for the Groups finance leases.

Based on the information currently available, the Group estimates that it will recognise additional lease liabilities in the range of £4,800,000 and £5,000,000 as at 1 October 2019.

For local and head offices Sykes calculates that any lease for purposes of IFRS16 will remain located in those offices until the lease end date and will not take up any break clauses. For foreign subsidiaries Sykes calculates the foreign exchange rate by taking the average of the daily rates between the yearend date and the date of the calculation. For the interest rate Sykes calculates this on the current cost of borrowing.

The transition exemptions Sykes will take on transition are short term leases i.e. less with a term less than 12 months and low value leases i.e. leases with a value less than £500.

The group plans to apply IFRS initially on 1 October 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 October 2019, with no restatement of comparative information.

**Notes (continued)**

**2 Turnover**

	2019 £000	2018 £000
Rendering of services	70,720	46,521
	<u>70,720</u>	<u>46,521</u>
	2019 £000	2018 £000
By geographical market		
United Kingdom and Ireland	70,720	46,521
	<u>70,720</u>	<u>46,521</u>
	2019 £000	2018 £000
Timing of transfer of services		
Products and services transferred at point in time	69,988	46,521
Products and services transferred over time	732	-
	<u>70,720</u>	<u>46,521</u>

For the transition to IFRS15 as detailed in note 1.15 Changes in Significant accounting policies Sykes has applied the retrospective method whereby the cumulative effect of the initial application of IFRS 15 is presented in the opening balance as at 1st October 2018. Accordingly, the comparative information for 2017/2018 was not restated. Instead it was accounted for according to the standards for revenue recognition effective during the 2017/2018 financial year.

**Notes (continued)**

**3 Expenses and auditor's remuneration**

*Included in operating profit are the following:*

	2019 £000	2018 £000
Foreign currency losses	151	24
Depreciation of owned assets (see note 9)	705	532
Administrative expenses - exceptional	3,944	1,500
Amortisation (see note 10)	4,103	1,697
	<u>          </u>	<u>          </u>

Administrative expenses - exceptional for 2019 total £3,944,000 and comprise of £1,422,000 acquisition costs, £261,000 office relocation costs, £92,000 staff restructuring costs, £2,164,000 sale related costs and £5,000 one-off consultancy.

Administrative expenses - exceptional for 2018 total £1,500,000 and comprise of £955,000 acquisition costs, £232,000 office relocation costs, £149,000 staff restructuring costs and £164,000 consultancy costs

*Auditor's remuneration:*

	2019 £000	2018 £000
Audit of these financial statements	58	70
	<u>          </u>	<u>          </u>

Amounts receivable by the Company's auditor and its associates in respect of services to the Company and its associates, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis in the consolidated financial statements of the Company's parent, Sykes Cottages Holdings Limited.

**4 Staff numbers and costs**

The average number of persons employed by the Company (including Directors) during the year, analysed by category, was as follows:

	2019 Number of employees	2018 Number of employees
Administration and support	388	295
Sales	153	73
	<u>          </u>	<u>          </u>
	541	368
	<u>          </u>	<u>          </u>

The aggregate payroll costs of these persons were as follows:

	2019 £000	2018 £000
Wages and salaries	14,515	10,553
Contributions to defined contribution plans	777	228
	<u>          </u>	<u>          </u>
	15,292	10,781
	<u>          </u>	<u>          </u>

## Notes (continued)

### 5 Directors' remuneration

	2019 £000	2018 £000
Directors' remuneration	<u>464</u>	<u>-</u>

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid Director was £265,000 (2018: £nil) and company pension contributions of £9,000 (2018: £nil) were made to a money purchase scheme on their behalf.

### 6 Other interest receivable and similar income

	2019 £000	2018 £000
Bank interest receivable	-	17
Interest rate hedge	-	111
Loan interest receivable from group undertakings	<u>627</u>	<u>512</u>
Total other interest receivable and similar income	<u>627</u>	<u>640</u>

Interest receivable and similar income includes income from group undertakings of £627,000 (2018: £512,000).

### 7 Interest payable and similar charges

	2019 £000	2018 £000
On bank loans and overdrafts	2,227	160
Loan interest payable from group undertakings	<u>1,546</u>	<u>410</u>
Total interest payable and similar charges	<u>3,773</u>	<u>570</u>

Interest payable and similar charges includes income from group undertakings of £1,546,000 (2018: £nil).

## Notes (continued)

### 8 Taxation

#### Recognised in the profit and loss account

	2019 £000	£000	2018 £000	£000
<i>UK corporation tax</i>				
Current tax on income for the period	1,714		694	
Adjustments in respect of prior periods	(79)		(193)	
Total current tax charge		1,635		501
<i>Deferred tax (see note 16)</i>				
Origination and reversal of temporary differences	(319)		7	
Adjustments in respect of prior periods	(10)		44	
Effect of tax rate change on opening balance	-		-	
Total deferred tax (credit)/charge	(329)		51	
Tax on profit on ordinary activities		1,306		552

#### Reconciliation of effective tax rate

	2019 £000	2018 £000
Profit for the year	5,373	6,506
Total tax expense	1,306	552
Profit excluding taxation	6,679	7,058
Tax using the UK corporation tax rate of 19% (2018:19 %)	1,269	1,341
Fixed asset differences	390	130
Expenses not deductible for tax purposes	274	271
Other tax adjustments, reliefs and transfers	11	-
Deferred tax relating to hive ups	(330)	-
Group relief claimed	(234)	(929)
Change in tax rate	15	(112)
Adjustments to tax charge in previous period	(89)	(149)
Total tax expense	1,306	552

Reductions in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) was substantively enacted on 26 October 2016. Further reductions to 18% (effective from 1 April 2020) were substantively enacted on 26 October 2016. An additional reduction to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2017. This will reduce the future current tax charge accordingly.

## Notes (continued)

### 9 Tangible fixed assets

	Land and Building £000	Computer equipment £000	Plant and Machinery £000	Office equipment £000	Assets under construction £000	Total £000
<b>Cost</b>						
Balance at 1 October 2018	946	1,740	63	262	-	3,011
Additions	-	277	-	132	418	827
Additions - purchase trade and assets	51	37	51	145	-	284
Disposals	(87)	(61)	(36)	(16)	-	(200)
<b>Balance at 30 September 2019</b>	<b>910</b>	<b>1,993</b>	<b>78</b>	<b>523</b>	<b>418</b>	<b>3,922</b>
<b>Depreciation</b>						
Balance at 1 October 2018	137	902	45	146	-	1,230
Depreciation charge for the year	103	403	32	167	-	705
Disposals	(72)	(61)	(34)	(14)	-	(181)
<b>Balance at 30 September 2019</b>	<b>168</b>	<b>1,244</b>	<b>43</b>	<b>299</b>	<b>-</b>	<b>1,754</b>
<b>Net book value</b>						
At 1 October 2018	809	838	18	116	-	1,781
<b>At 30 September 2019</b>	<b>742</b>	<b>749</b>	<b>35</b>	<b>224</b>	<b>418</b>	<b>2,168</b>

**Notes (continued)**

**10 Intangible fixed assets**

	Goodwill £000	Software £000	Brands £000	Owner Contracts £000	Customer Database £000	Total £000
<b>Cost</b>						
Balance at 1 October 2018	6,584	6,804	1,208	3,549	810	18,955
Additions – acquired through business combinations	12,184	-	2,125	9,905	1,033	25,247
Additions – internally developed	-	2,407	-	-	-	2,407
Additions - other	-	1,272	-	-	-	1,272
<b>Balance at 30 September 2019</b>	<b>18,768</b>	<b>10,483</b>	<b>3,333</b>	<b>13,454</b>	<b>1,843</b>	<b>47,881</b>
<b>Amortisation</b>						
Balance at 1 October 2018	-	3,685	43	172	77	3,977
Amortisation for the year	-	2,164	274	1,337	328	4,103
<b>Balance at 30 September 2019</b>	<b>-</b>	<b>5,849</b>	<b>317</b>	<b>1,509</b>	<b>405</b>	<b>8,080</b>
<b>Net book value</b>						
At 1 October 2018	6,584	3,119	1,165	3,377	733	14,978
<b>At 30 September 2019</b>	<b>18,768</b>	<b>4,634</b>	<b>3,016</b>	<b>11,945</b>	<b>1,438</b>	<b>39,801</b>

Internal software development expenditure has been capitalised for a defined project where the expenditure was separately identifiable. The cost will be amortised over 3 years which is the estimated useful life of the asset.

The amortisation and impairment charge is recognised in administrative expenses in the income statement.

## **Notes (continued)**

### **10 Intangible assets (continued)**

#### *Goodwill impairment testing*

The Group tests goodwill annually for impairment. Goodwill is allocated to the geographical cash-generating unit ('CGU') as this is the smallest identifiable group of assets that generates cash inflows independently. The recoverable amount of the CGU is determined from a value-in-use calculation that uses cash flow forecasts derived from the most recent financial budgets and forecasts approved by management covering a four year period. Budgets and forecasts are based on expectations of future outcomes taking into account past experience, adjusted for anticipated revenue growth, from both businesses acquired in the year and like for like growth and taking into consideration external economic factors.

Cash flows beyond the four year period are extrapolated using the estimated growth rate of 1.7% into perpetuity. The growth rate does not exceed the long-term average growth rate for the markets in which the CGU operates.

The pre-tax discount rate of 12.45% is based on the Group's weighted average cost of capital adjusted for specific principal risks and uncertainties. The discount rate takes into account the risk-free rate of return, the market risk premium and beta factor reflecting the average beta for the Group and comparator companies which are used in deriving the cost of equity.

The Board acknowledges that there are additional factors that could impact the risk profile of the CGU, which has been considered by way of sensitivity analysis performed as part of the annual impairment test. Significant headroom exists in the CGU. The level of headroom may change if different growth rate assumptions or a different pre-tax discount rate were used in the cash flow projections, however there are no likely changes to these assumptions that would result in any impairment recorded.

## Notes (continued)

### 11 Purchase of trade and assets in the period

#### Transfer of trade and assets in the period

On 29 October 2018 Sykes Cottages Limited acquired the trade and assets of Coast & Country Cottages (Holdings) Ltd and its subsidiary for £3,860,576 settled by intercompany. Coast & Country Cottages (Holdings) Ltd and its subsidiary provide a holiday letting agency service.

The transfer of the assets and liabilities has been accounted for using the acquisition method of accounting. A provisional assessment has been made of the fair value to the Company of the assets and liabilities acquired.

The fair values of the assets and liabilities acquired are as follows:

	Book value at transfer £000	Measurement adjustment £000	Fair value £000
<b>Net assets acquired</b>			
Tangible fixed assets	173	-	173
Intangible fixed assets	-	3,275	3,275
Debtors	119	-	119
Cash at bank and in hand	919	-	919
Creditors	(1,988)	-	(1,988)
Deferred tax	-	(558)	(558)
Net assets/(liabilities)	(777)	2,717	1,940
 Goodwill			 1,921
 Consideration			 3,861

On 31 December 2018 Sykes Cottages Ltd acquired the trade and assets of DCL Newco Ltd and its subsidiary for £3,881,399 settled by intercompany.

The transfer of the assets and liabilities has been accounted for using the acquisition method of accounting. A provisional assessment has been made of the fair value to the Company of the assets and liabilities acquired.

The fair values of the assets and liabilities acquired are as follows:

	Book value at transfer £000	Measurement adjustment £000	Fair value £000
<b>Net assets acquired</b>			
Tangible fixed assets	49	-	49
Intangible fixed assets	-	1,961	1,961
Debtors	715	-	715
Cash at bank and in hand	220	-	220
Creditors	(175)	-	(175)
Deferred tax	-	(334)	(334)
Net assets	809	1,627	2,436
 Goodwill			 1,445
 Consideration			 3,881

## Notes (continued)

### 11 Purchase of trade and assets in the period (continued)

On 12 April 2019 Sykes Cottages Ltd acquired the trade and assets of Yorkshire Coastal Cottages partnership for £2,115,000, satisfied by cash. The business provides a holiday letting agency service. The primary reason for the business combination is to expand the existing group.

The following table sets out the aggregated book values of the identifiable assets and liabilities acquired on 12 April 2019 and their provisional fair value to the company. The purchase had the following effect on the Company's assets and liabilities.

	Book value at transfer	Measurement adjustment	Fair value
	£000	£000	£000
<b>Net assets acquired</b>			
Tangible fixed assets	-	-	-
Intangible fixed assets	-	1,173	1,173
Debtors	8	-	8
Cash at bank and in hand	-	-	-
Creditors	(144)	-	(144)
Deferred tax	-	(199)	(199)
Net assets/(liabilities)	(136)	974	838
Goodwill			<u>1,277</u>
Consideration			<u>2,115</u>

On 29 April 2019 Sykes Cottages Ltd acquired the trade and assets of Menai Holiday Cottages Ltd for £6,402,287 settled by intercompany.

The transfer of the assets and liabilities has been accounted for using the acquisition method of accounting. A provisional assessment has been made of the fair value to the Company of the assets and liabilities acquired.

The fair values of the assets and liabilities acquired are as follows:

	Book value at transfer	Measurement adjustment	Fair value
	£000	£000	£000
<b>Net assets acquired</b>			
Tangible fixed assets	51	-	51
Intangible fixed assets	-	3,297	3,297
Debtors	391	-	391
Cash at bank and in hand	596	-	596
Creditors	(449)	-	(449)
Deferred tax	-	(561)	(561)
Net assets	589	2,736	3,325
Goodwill			<u>3,077</u>
Consideration			<u>6,402</u>

## Notes (continued)

### 11 Purchase of trade and assets in the period (continued)

On 31 May 2019 Sykes Cottages Ltd acquired the trade and assets of Manor Cottages UK Company Ltd for £7,863,804 settled by intercompany.

The transfer of the assets and liabilities has been accounted for using the acquisition method of accounting. A provisional assessment has been made of the fair value to the Company of the assets and liabilities acquired.

The fair values of the assets and liabilities acquired are as follows:

	Book value at transfer	Measurement adjustment	Fair value
	£000	£000	£000
<b>Net assets acquired</b>			
Tangible fixed assets	10	-	10
Intangible fixed assets	-	3,357	3,357
Debtors	245	-	245
Cash at bank and in hand	1,673	-	1,673
Creditors	(1,313)	-	(1,313)
Deferred tax	-	(572)	(572)
Net assets	615	2,785	3,400
Goodwill			4,464
Consideration			7,864

On 31 May 2019 Sykes Cottages Ltd acquired the trade and assets of Manor Cottages Laundry Services Ltd for £26,198 settled by intercompany.

The transfer of the assets and liabilities has been accounted for using the acquisition method of accounting. A provisional assessment has been made of the fair value to the Company of the assets and liabilities acquired.

The fair values of the assets and liabilities acquired are as follows:

	Book value at transfer	Measurement adjustment	Fair value
	£000	£000	£000
<b>Net assets acquired</b>			
Tangible fixed assets	-	-	-
Intangible fixed assets	-	-	-
Debtors	7	-	7
Cash at bank and in hand	19	-	19
Creditors	-	-	-
Deferred tax	-	-	-
Net assets	26	-	26
Goodwill			-
Consideration			26

## Notes (continued)

### 11 Purchase of trade and assets in the period (continued)

On 31 May 2019 Sykes Cottages Ltd acquired the trade and assets of Manor Cottages Property Services (South) Ltd for £66,445 settled by intercompany.

The transfer of the assets and liabilities has been accounted for using the acquisition method of accounting. A provisional assessment has been made of the fair value to the Company of the assets and liabilities acquired.

The fair values of the assets and liabilities acquired are as follows:

	Book value at transfer	Measurement adjustment	Fair value
	£000	£000	£000
<b>Net assets acquired</b>			
Tangible fixed assets	-	-	-
Intangible fixed assets	-	-	-
Debtors	64	-	64
Cash at bank and in hand	2	-	2
Creditors	-	-	-
Deferred tax	-	-	-
Net assets	<u>66</u>	<u>-</u>	<u>66</u>
Goodwill			<u>-</u>
Consideration			<u>66</u>

## Notes (continued)

### 12 Fixed asset investments

	Shares in group undertakings £000
<b>Cost and net book value</b>	
At beginning of year	15,852
<b>Additions</b>	
Investment in Menai Cottages Limited	6,402
Investment in NZ Bachcare Holdco Limited	-
<b>Impairment</b>	
Investment in Coast & Country Cottages (Holdings) Limited – transfer of trade and assets into Sykes Cottages Limited	(3,909)
Investment in Manor Cottages UK Company Limited, Manor Cottages Laundry Services Limited and Manor Cottages Property Services (South) Limited – transfer of trade and assets into Sykes Cottages Limited	(7,956)
Investment in DCL NewCo Limited – transfer of trade and assets into Sykes Cottages Limited	(3,881)
Investment in Menai Cottages Limited – transfer of trade and assets into Sykes Cottages Limited	(6,402)
<b>At end of year</b>	<b>106</b>

The investment in Menai Cottages Limited took place on 14<sup>th</sup> January 2019.

The investment in NZ Bachcare Holdco Limited took place on 1<sup>st</sup> April 2019.

**Notes (continued)**

**12 Fixed asset investments (continued)**

The Company has the following investments in subsidiaries:

Company	Principal place of business/ Country of Incorporation	Registered number	Class of shares held	Ownership	
				2019	2018
Comwall Holiday Cottages Limited	UK	04924028	Ordinary	100%	100%
Coast & Country Cottages (Holdings) Limited	UK	08739127	Ordinary	100%	100%
Coast & Country Cottages (South West) Limited	UK	04073439	Ordinary	100%	100%
Manor Cottages UK Company Limited	UK	05750184	Ordinary	100%	100%
Manor Cottages Laundry Services Limited	UK	10315174	Ordinary	100%	100%
Manor Cottages Property Services Limited	UK	07675654	Ordinary	100%	100%
Manor Cottages Property Services (South) Limited	UK	09084982	Ordinary	100%	100%
Hideaway Holiday Cottages Limited	UK	10439904	Ordinary	100%	100%
La Manga Direct Limited	UK	03727523	Ordinary	100%	100%
DCL NewCo Limited	UK	11421216	Ordinary	100%	100%
Dream Cottages Limited	UK	03665465	Ordinary	100%	100%
Menai Holiday Cottages Limited	UK	04947297	Ordinary	100%	100%
NZ Bachcare Holdco Limited	NZ	7313436	Ordinary	80%	-

The registered address of Sykes Cottages Limited is One City Place, Queens Road, Chester, Cheshire, CH1 3BQ

The registered address of all other UK investments is One St Peters Square, Manchester, M2 3DE

The registered address of NZ Bachcare HoldCo Limited is 195 Lambton Quay, Wellington Central, Wellington, NZ

## Notes (continued)

### 13 Debtors

	2019 £000	2018 £000
Trade debtors	13,707	8,590
Amounts owed by group undertakings	16,740	16,924
Other debtors	224	589
Corporation tax	106	389
Prepayments	889	879
	<u>31,666</u>	<u>27,371</u>

### 14 Creditors: amounts falling due within one year

	2019 £000	2018 £000
Trade creditors	2,308	2,827
Contract liability	732	-
Amounts owed to group undertakings	14,333	12,786
Taxation and social security	1,510	1,241
Other creditors	5,493	5,938
Accruals	5,914	3,034
Unitranche debt interest accrual	494	-
	<u>30,784</u>	<u>25,826</u>

### 15 Creditors: amounts falling due after one year

	2019 £000	2018 £000
Unitranche debt	27,823	17,000
Capitalised arrangement fee	(1,154)	-
	<u>26,669</u>	<u>17,000</u>

#### Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	Face value 2019 £000	Carrying amount 2019 £000	Face value 2018 £000	Carrying amount 2018 £000
Unitranche	GBP	LIBOR + 6.25%	2023	27,823	28,317	17,000	17,000
				<u>27,823</u>	<u>28,317</u>	<u>17,000</u>	<u>17,000</u>

The carrying amount of debt includes interest accrued at the year end.

## Notes (continued)

### 15 Creditors: amounts falling due after one year (continued)

#### Changes in liabilities from financing activities

	Loans and borrowings £000
<b>Balance at 1 October 2018</b>	17,000
<i>Changes from financing cash flows</i>	
Proceeds from loans and borrowings	10,823
Capitalised arrangement fee	(1,340)
<b>Total changes from financing cash flows</b>	9,483
<i>Other changes</i>	
Interest expense	1,904
Interest paid	(1,410)
Capitalised arrangement fee	186
<b>Total other changes</b>	680
<b>Balance at 30 September 2019</b>	27,163

### 16 Deferred tax liabilities

#### Recognised deferred tax liabilities

Deferred tax liabilities are attributable to the following:

	Liabilities 2019 £000	Liabilities 2018 £000
Accelerated capital allowances	1,842	1,202
Short term temporary difference	1,102	(14)
<b>Deferred tax liabilities</b>	<b>2,944</b>	<b>1,188</b>

#### Movement in deferred tax liability during the year

	1 October 2018 £000	Recognised in income £000	Adjustment due to IFRS15 £000	Acquired during the period £000	30 September 2019 £000
Deferred tax liability	1,188	(329)	(136)	2,221	2,944

### 17 Employee benefits

#### Defined contribution plans

The Company operates a number of defined contribution pension plans.

The total expense relating to these plans in the current year was £513,000 (2018: £165,259).

## Notes (continued)

### 18 Share capital

	2019 £	2018 £
<i>Allotted, called up and fully paid</i>		
100 Ordinary shares of £1 each	100	100
	<hr/>	<hr/>
Shares classified in shareholders' funds	100	100
	<hr/>	<hr/>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

### 19 Related parties

#### *Identity of related parties with which the Company has transacted*

The Company rents office premises which are jointly owned by the Directors C P Sykes and L J Teasdale (resigned January 2016). Rents paid during the year amounted to £60,000 (2018: £60,000).

The Company also rented office premises which are owned by CLM Chester LLP. C P Sykes and M Hill (resigned February 2017) were Directors in Sykes Cottages Limited and are partners in CLM Chester LLP. Rents paid during the year amounted to £212,500 (2018: £150,000). £nil (2018: nil) was left in creditors owing to CLM Chester LLP at year end in relation to these properties.

CLM Chester LLP rents three properties through Sykes Cottages Limited. Commission of £32,531 (2018: £26,261) were recognised on these properties during the year.

### 20 Ultimate parent company and parent company of larger group

At the year ended 30 September 2019, the company was a subsidiary undertaking of Sykes Cottages Holdings Limited which was the ultimate parent company incorporated in United Kingdom. The ultimate controlling party was Living Bridge LLP.

The largest and smallest group in which the results of the company are consolidated was that headed by Sykes Cottages Holdings Limited, incorporated in the United Kingdom. No other group financial statements included the results of the company. The consolidated financial statements of this group may be obtained from One, St. Peter's Square, Manchester, M2 3AE.

### 21 Post balance sheet events

Sykes Cottages Limited acquired 100% of the share capital of Coast and Country Holidays Limited on 4 October 2019, 100% of the share capital of Carbis Bay Holidays Limited on 28 November 2019 and 100% of the share capital of Potter TopCo Limited on 18 December 2019. The Group also acquired the remaining 20% of the share capital of Bachcare Limited on 28 October 2019. The initial accounting is incomplete for these acquisitions as at the date of authorising these financial statements, and in line with IFRS 3.B66, no further details of these acquisitions are included within these financial statements.

On 28 October 2019, 100% of Sykes Cottages Holdings Limited was acquired by Priestholm Bidco Limited and as part of this transaction the group took part in a refinance. Due to the acquisition by Priestholm Bidco Ltd post year end the ultimate parent company or controlling party of Sykes Cottages Holdings Limited is Vitruvian Partners LLP.

### 22 Contingent Liabilities

The Company previously offered customers travel insurance provided by UK General Insurance ('UKGI'). Following a thematic review by the FCA, UKGI have refunded customers for the potential miss-selling of their insurance policies by Sykes Cottages Limited as an Appointed representative (Amongst other appointed representatives also under review). The current likelihood of a subsequent material liability for Sykes Cottages is possible rather than probable, with UKGI requesting a contribution from Sykes Cottages Limited, for which no liability is accepted.