Registered number: 10987131

COMPANIES HOUSE COPY

SCCL 3 LIMITED
(Formerly SCCL 2 Limited)

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 DECEMBER 2018

COMPANY INFORMATION

Directors	M M Preston A T Fuller
Company secretary	S Brannigan
Registered number	10987131
Registered office	Farncombe House Broadway Worcestershire WR12 7LJ
Independent auditors	BDO LLP Two Snowhill Birmingham B4 6GA

SCCL 3 LIMITED

CONTENTS

STRATEGIC REPORT
FOR THE PERIOD ENDED 31 DECEMBER 2018

Introduction

The directors present their strategic report for the period ended 31 December 2018.

The company was incorporated on 28 September 2017 and changed its name on 16 May 2018 to SCCL 3 Limited from SCCL 2 Limited.

Principal activity

The principal activity of the company is that of an investment holding company. The group holds a number of investment properties and operates an estate of high quality hotels in the Cotswolds.

Business review

On 12 October 2017 the company acquired a number of businesses from Skagen Run Off Limited (a related party). £36.6m of share capital was issued as consideration for this transaction. At the year end a further £12.2m share capital was issued in exchange for a release of parent company loans.

Following acquisition of the company's subsidiaries on the 12 October 2017 trading has generated turnover of £15.2m, a loss for the period of £8.4m and an operating cash inflow of £17.7m.

The Group's balance sheet is strong, with a robust asset base, secure financing and prudent capitalisation.

The company regards the performance of its subsidiaries to be in line with expectations. Significant investment over the period in the hotel activities is expected to increase profitability over forthcoming years. External valuations of the hotel estate underpin the investment decisions. In the property portfolio, the recent new London investment remains under development. In line with market conditions, the directors reviewed the valuation of the London rental property and decided to revalue the property downwards by some £0.65m, reflecting the low yields and sluggish market conditions. Following a third party valuation, the Cotswolds based investment properties were revalued downwards by £0.278m.

All of the hotels have been continually maintained, and work continues to upgrade and increase the range of accommodation, with the most recent investment programme being at the Fish Hotel, with the addition of five Shepherd Brace Huts or 'Hideaway Huts' as they are referred to and three bespoke Treehouses. The restaurant at the Fish was also part of this investment programme, resulting in the launch of 'Hook' by Martin Burge, a distinctive Fish restaurant unique in the Cotswolds.

Investment has continued into 2019, with further enhancements to the food and beverage offering in the hotels and refurbishments of the new London property.

The hotel group has seen growth in turnover, despite a short-term closure during the year as a result of the hotel refurbishment project and reflects the results of the investment in the buildings, fittings and the services available in the hotels over the last few years, together with an enhanced marketing strategy. Occupancy rates and room rates have remained strong and resilient.

At the year end an independent valuation of the hotel assets was undertaken and this has resulted in a £0.23m downwards revaluation in hotel freehold property.

Principal risks and uncertainties and financial risk management

The principal risks facing the group are the rental yields and valuation fluctuations in the London property market and the general economic uncertainties which influence consumer demand for hotel accommodation, food and beverage.

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 with attractive benefits, career progression and development, coupled with a focus on employee wellbeing and engagement, supporting our core values and seeking 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.

The company is financed by its shareholders sufficiently to cover its own costs, with such financing capitalised at each year end. The group's operating businesses each have stand-alone related party or third party loan facilities. Each business has sufficient financing or operating cashflow to accommodate foreseeable trading demands, capital commitments and interest rate fluctuations.

Credit risk in the property portfolio is limited due to customers being largely related parties. In the hotel business credit risk is limited by the customer base with a large number of small value transactions, most of which are settled immediately in cash.

Acquisition of subsidiaries

On 12 October 2017 the company acquired from Skagen Run Off Limited, several businesses as set out in Note 25 to the financial statements.

Key performance indicators

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.

For the hotel assets, current KPI's 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

	2018
	£'000
Hotel turnover	14,832
Hotel gross margin	5,131

For the property portfolio, KPI's are rental income and occupancy; respectively £158,000 and 100% for the period.

This report was approved by the board on 23-9-19 and signed on its behalf.

M M Preston
Director

DIRECTORS' REPORT
FOR THE PERIOD ENDED 31 DECEMBER 2018

The directors present their report and the financial statements for the period ended 31 December 2018.

Directors' responsibilities statement

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 the directors have elected to prepare the group and company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgments and 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;
- 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.

Results and dividends

The loss for the period, after taxation, amounted to £8,355,000.

No dividends have been proposed or paid in respect of the period ended 30 December 2018.

Directors

The directors who served during the period and up to the date of signing of the financial statements were:

J R A Bond (appointed 28 September 2017, resigned 31 January 2019)
L Wilding (appointed 28 September 2017, resigned 8 March 2018)
G G Brown (appointed 8 November 2017, resigned 17 January 2018)
M M Preston (appointed 8 March 2018)
A T Fuller (appointed 8 March 2018)

Future developments

The company expects to hold the current investment portfolio for the foreseeable future. During the period, the property investment company (Skagen Property Limited) invested in an additional London rental property and is currently refurbishing this property, prior to plans to rent the property to a related party company during 2020.

Employee involvement/disabled employees

The directors recognise the importance of good communications with all employees. The group has several divisions and each division is responsible for ensuring employee participation to its own particular needs. Employees are encouraged to put forward any suggestions which would benefit the workplace of the group.

The group is an Equal Opportunities Employer. We are committed to the employment of people with disabilities and guarantee an interview for those who meet minimum selection criteria. We provide training and development for people with disabilities, tailored where appropriate, to ensure they have the opportunity to achieve their potential.

If a person becomes disabled while in our employment, we will do our best to retain them, including consulting them about their requirements, making appropriate adjustments, and providing alternative suitable provisions.

Disclosure of information to auditors

Each of the persons who are directors at the time when this directors' report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the company and the group's auditors are unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company and the group's auditors are aware of that information.

Post balance sheet events

There have been no significant events affecting the group since the period end.

Qualifying third party indemnity provisions

The group maintains directors' and officers' liability insurance which gives appropriate cover for any legal action brought against the directors and/or officers.

In accordance with section 236 of the Companies Act 2006, qualifying third party indemnity provisions are in place for the directors in respect of liabilities incurred as a result of their office, as far as is permitted by law. Both the insurance and indemnities applied throughout the period and continue through to the date of this Directors' Report.

DIRECTORS' REPORT (CONTINUED)
FOR THE PERIOD ENDED 31 DECEMBER 2018

Matters covered in the strategic report

Under s414C(11), the strategic report contains a fair review of the business; the principal risks and uncertainties faced by the business; and the key financial and non-financial performance indicators as considered by the board of directors. This information is therefore excluded from the directors' report.

Auditors

The auditors, BDO LLP, were appointed in the period and will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 23-9-19 and signed on its behalf.

M M Preston
Director

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SCCL 3 LIMITED

Opinion

We have audited the financial statements of SCCL 3 Limited ("the Parent Company") and its subsidiaries ("the Group") for the period ended 30 December 2018 which comprise the consolidated statement of comprehensive income, the consolidated and company statements of financial position, the consolidated statement of cash flows, the consolidated and company statements 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, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 December 2018 and of the Group's loss for the period 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 Group and the Parent 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 or 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.

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the 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 determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SCCL 3 LIMITED (CONTINUED)

Auditors' 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.

Use of our report

This report is made solely to the Parent 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 Parent 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 Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Andrew Mair (Senior Statutory Auditor)
For and on behalf of BDO LLP, statutory auditor
Birmingham
Date: 23 September 2019

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 31 DECEMBER 2018

	Note	2018 £000
Turnover	4	15,194
Cost of sales		(10,728)
Gross profit		4,466
Distribution costs		(1,336)
Administrative expenses		(10,968)
Property revaluations		(1,158)
Exceptional income	11	1,582
Operating loss	5	(7,414)
Interest receivable and similar income		25
Interest payable and similar expenses	9	(958)
Loss before tax		(8,347)
Tax on loss	10	(8)
Loss and total comprehensive loss for the period		(8,355)

There was no other comprehensive income for 2018.

The notes on pages 15 to 36 form part of these financial statements.

This statement reflects the financial period from the date of incorporation, 28 September 2017, to the balance sheet date.

SCCL 3 LIMITED
REGISTERED NUMBER: 10987131

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

	Note	2018 £000	2018 £000
Fixed assets			
Tangible assets	13		37,685
Investment property	15		15,806
			53,491
Current assets			
Inventories	16	187	
Debtors: amounts falling due after more than one year		1,440	
Debtors: amounts falling due within one year	17	2,264	
Cash at bank and in hand		1,208	
		5,099	
Creditors: amounts falling due within one year	19	(8,614)	
Net current liabilities			(3,515)
Total assets less current liabilities			49,976
Creditors: amounts falling due after more than one year	20		(9,500)
Net assets			40,476
Capital and reserves			
Called up share capital	24		48,831
Profit and loss account	25		(8,355)
Shareholders' funds			40,476

The financial statements were approved and authorised for issue by the board and were signed on its behalf on
23 September 2019.

M.M Preston
Director

The notes on pages 15 to 36 form part of these financial statements.

COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Note	2018 £000	2018 £000
Fixed assets			
Investments	14		39,170
Current assets			
Debtors: amounts falling due within one year	17	45	
Cash at bank and in hand		428	
		473	
Creditors: amounts falling due within one year	19	(35)	
Net current assets			438
Total assets less current liabilities			39,608
Net assets			39,608
Capital and reserves			
Called up share capital	24		48,831
Profit and loss account	25		(9,223)
Shareholders' funds			39,608

The company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own Statement of comprehensive income in these financial statements. The loss for the period dealt with in the financial statements of the company was £9,223,000.

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 23-9-19

M M Preston
Director

The notes on pages 15 to 36 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 DECEMBER 2018

	Called up share capital £000	Profit and loss account £000	Total equity £000
Loss for the period	-	(8,355)	(8,355)
Total comprehensive loss for the period	-	(8,355)	(8,355)
Shares issued during the period	48,831	-	48,831
Total transactions with owners	48,831	-	48,831
At 31 December 2018	48,831	(8,355)	40,476

The notes on pages 15 to 36 form part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 DECEMBER 2018

	Called up share capital	Profit and loss account	Total equity
	£000	£000	£000
Comprehensive income for the period			
Loss for the period	-	(9,223)	(9,223)
Total comprehensive income for the period	-	(9,223)	(9,223)
Shares issued during the period	48,831	-	48,831
Total transactions with owners	48,831	-	48,831
At 31 December 2018	48,831	(9,223)	39,608

The notes on pages 15 to 36 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 31 DECEMBER 2018

	2018 £000
Cash flows from operating activities	
Loss for the financial period	(8,355)
Adjustments for:	
Depreciation of tangible assets	4,560
Negative goodwill	(294)
Loss on disposal of tangible assets	770
Interest payable	958
Interest receivable	(25)
Increase in stocks	(29)
Decrease in debtors	17,783
Decrease in creditors	1,155
Property revaluations	1,158
Net cash generated from operating activities	17,681
Cash flows used in investing activities	
Purchase of tangible fixed assets	(6,108)
Purchase of investment properties	(8,037)
Interest received	25
Cash acquired in business acquisitions	1,255
Net cash used in investing activities	(12,865)
Cash flows from financing activities	
New loans	17,100
Repayment of loans	(19,750)
Interest paid	(958)
Net cash from financing activities	(3,608)
Net increase in cash and cash equivalents	1,208
Cash and cash equivalents at the end of period	1,208
Cash and cash equivalents at the end of period comprise:	
Cash at bank and in hand	1,208

The notes on pages 15 to 36 form part of these financial statements.

1. General information

SCCL 3 Limited is a private company limited by shares, registered in England and Wales (Company no: 10987131). The address of its registered office is Farncombe House, Broadway, Worcestershire, WR12 7LJ. For further details please refer to the strategic report on page 1.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires group management to exercise judgment in applying the group's accounting policies (see note 3).

The company incorporated on 28 September 2017. As a result these financial statements are drawn up for the period from 28 September 2017 to 30 December 2018 ('2018').

The financial statements are presented in Sterling as that is the primary economic environment in which the company operates.

The following principal accounting policies have been consistently applied:

2.2 Basis of consolidation

The consolidated financial statements present the results of the company and its subsidiaries ("the group") as if they form a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

The consolidated financial statements incorporate the results of business combinations using the purchase method. In the statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date control ceases.

2. Accounting policies (continued)

2.3 Going concern

The group's operating businesses have stand-alone related party or third party loan facilities with sufficient headroom available to accommodate their cash requirements for a period not less than 12 months from the date of this report.

The company is funded on a short term basis intra-year for its operational costs by its shareholders. Each year end the shareholders intend to capitalise this debt to the extent that the company has insufficient cash flow to make a full repayment. The directors have received confirmation from its shareholders that they will continue with such support for a period not less than 12 months from the date of this report. The shareholders have also confirmed they will not call for repayment of any funding during this period should the company not have sufficient cash resources to make such a repayment.

Consequently, at the time of approving the financial statements, the directors have a reasonable expectation that the group and company has adequate liquid resources and banking facilities available to them to continue in operational existence of no less than 12 months from the date of this report. Thus the directors continue to adopt the going concern basis of accounting in preparing the financial statements.

2.4 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.

2.5 Intangible assets

Negative goodwill

Negative goodwill represents the excess of the fair value of the business acquired from Skagen Run Off Limited over the cost of acquisition. The negative goodwill is amortised to the statement of comprehensive income over its expected life which the directors have assessed at less than one year.

2.6 Tangible fixed assets

Tangible fixed assets under the cost model, other than investment properties and hotel assets, are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

2. Accounting policies (continued)

2.6 Tangible fixed assets (continued)

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Freehold property	- over 50 years
Fixtures & fittings & equipment	- 3 to 5 years
Infrastructure Assets & Semi-Permanent structures	- 5 to 10 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Consolidated statement of comprehensive income.

The group adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred, if the replacement part is expected to provide incremental benefits to the group. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to the statement of comprehensive income during the period in which they are incurred.

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. If losses exceed previously recognised gains or previous impairments of cost are reversed, the amounts are recognised in the consolidated operating results.

Assets under construction are not depreciated until brought into use. Land is not depreciated.

2.7 Impairment of fixed assets and goodwill

Assets that are subject to depreciation or amortisation are assessed at each reporting date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash-generating unit to which the asset has been allocated) is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's (or CGU's) fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets that have been previously impaired are reviewed at each reporting date to assess whether there is any indication that the impairment losses recognised in prior periods may no longer exist or may have decreased.

2. Accounting policies (continued)

2.8 Investment property

Investment property is initially carried at its cost and subsequently carried at fair value. Fair value is determined annually by the directors having periodic reference to external valuers and derived from the current market rents and investment property yields for comparable real estate, adjusted if necessary for any difference in the nature, location or condition of the specific asset. No depreciation is provided. Changes in fair value are recognised in the statement of comprehensive income.

2.9 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

2.10 Inventories

Inventories are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell.

At each reporting date, inventories are assessed for impairment. If inventory is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in profit or loss.

2.11 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

2.12 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months or less.

In the consolidated statement of cash flows, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the group's cash management.

2.13 Creditors

Short term creditors are measured at the transaction price.

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

2. Accounting policies (continued)

2.14 Financial instruments

The group only enters into basic financial instruments that result in the recognition of financial assets and liabilities like trade and other accounts receivable and payable, loans from banks and other third parties and loans to related parties.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However, if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in the case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Consolidated statement of comprehensive income.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate of the recoverable amount, which is an approximation of the amount that the group would receive for the asset if it were to be sold at the reporting date.

Financial assets and liabilities are offset and the net amount reported in the Statement of financial position when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

2. Accounting policies (continued)

2.15 Taxation

The tax expense for the period comprises current and deferred tax.

Tax is recognised in the consolidated statement of comprehensive income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the statement of financial position date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

2.16 Interest receivable and similar income

Interest receivable and similar income represents interest receivable on related party loans and is recognised using the effective interest rate method.

2.17 Finance costs

Finance costs are charged to the consolidated statement of comprehensive income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

2.18 Pensions

Defined contribution pension plan

The group operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity. Once the contributions have been paid the group has no further payments obligations.

The contributions are recognised as an expense in the statement of comprehensive income when they fall due. Amounts not paid are shown in accruals as a liability in the statement of financial position. The assets of the plan are held separately from the group in independently administered funds.

2. Accounting policies (continued)

2.19 Exceptional items

Exceptional items are transactions that fall within the ordinary activities of the group but are presented separately due to their size or incidence.

2.20 Leased assets

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.

3. Judgments in applying accounting policies and key sources of estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The items in the financial statements where these estimates and judgements have been made include:

Useful economic lives of tangible assets
The 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.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

4. Turnover

An analysis of turnover by class of business is as follows:

	2018 £000
Operation of hotels	14,831
Rental income	363
	15,194

All turnover arose within the United Kingdom.

5. Operating loss

The operating loss is stated after charging:

	2018 £000
Depreciation of tangible fixed assets	4,560
Negative goodwill writeback	(294)
Other operating lease rentals	64
Fees payable to the group's auditor and its associates for the audit of the group's annual financial statements	20
Fees payable to the group's auditor for the audit of the annual financial statements of subsidiaries	52
Loss on disposal of fixed assets	769
Inventory recognised as an expense	2,116

6. Staff costs

Staff costs were as follows:

	2018 £000
Wages and salaries	6,773
Social security costs	520
Other pension costs	313
	7,606

7. Employee information

The average monthly number of employees, including the directors, during the period was as follows:

	2018 No.
Direct	228
Indirect and administration	36
	264

The company has no employees other than the directors, who did not receive any remuneration.

8. Directors' remuneration

The directors' aggregate emoluments amounted to £341,000 and the value of the group's contribution to defined contribution pension schemes in respect of the directors amounted to £11,000. 1 director was accruing benefits under a defined contribution pension scheme.

The highest paid director received remuneration of £184,000.

The value of the group's contribution to a defined contribution pension scheme in respect of the highest paid director amounted to £11,000.

Key management comprises the directors and senior management of the group. The compensation paid to key management for their services including pension contributions was £706,000.

9. Interest payable and similar expenses

	2018 £000
Bank interest payable	273
Interest payable to related party undertakings	685
	958

10. Taxation

	2018 £000
Corporation tax	
Current tax on losses for the year	(28)
Group relief	21
	(7)
Total current tax	(7)
Deferred tax	
Origination and reversal of timing differences	15
Total deferred tax	15
Tax on loss	8

Factors affecting tax charge for the period

The tax assessed for the period is higher than the standard rate of corporation tax in the UK of 19%. The differences are explained below:

	2018 £000
Loss before tax	(8,157)
Loss multiplied by standard rate of corporation tax in the UK of 19%	(1,550)
Effects of:	
Expenses not deductible for tax purposes	183
Profits not assessed for tax purposes	(301)
Deferred tax asset not recognised	1,676
Total tax charge for the period	8

10. Taxation (continued)

Factors that may affect future tax charges

The UK corporation tax rate reduced to 19% on 1 April 2017 and will reduce to 17% from 1 April 2020.

Unprovided deferred tax assets of £1.676m exist at the year end (£0.435m relating to capital allowances and £1.241m relating to trading losses).

11. Exceptional items

	2018 £000
Reversal of bad debt provision	1,288
Negative goodwill arising on acquisition (see Note 26)	294
	1,582

12. Intangible assets

Group

	Negative goodwill £000
Cost	
Additions (note 26)	(294)
At 31 December 2018	(294)
Amortisation	
Credit for the period	294
At 31 December 2018	294
Net book value	
At 31 December 2018	-

12. Intangible assets (continued)

Goodwill relates to the acquisition by the company on 12 October 2017 of several subsidiaries of Skagen Run Off Limited (formerly Skagen Conscience Capital Limited) following a wider group reconstruction. The purchase price of the subsidiaries was £36.6m and the fair value of the net assets acquired £36.9m, leading to negative goodwill of £0.3m. This negative goodwill has been expensed to the consolidated statement of comprehensive income in the current period as in the assessment of the directors this was the period over which the benefit of the negative goodwill arose.

Company

The company has no intangible assets.

13. Tangible fixed assets

Group

	Freehold property £000	Fixtures, fittings & equipment £000	Assets under construction £000	Total £000
Cost or valuation				
Additions	143	5,965	-	6,108
Acquisition of subsidiaries (note 26)	32,260	2,750	2,126	37,136
Disposals	-	(1,621)	(233)	(1,854)
Transfer	-	1,726	(1,726)	-
Revaluations	(230)	-	-	(230)
At 31 December 2018	32,173	8,820	167	41,160
Depreciation				
Charge for the period	1,087	3,473	-	4,560
Disposals	-	(1,085)	-	(1,085)
At 31 December 2018	1,087	2,388	-	3,475
Net book value				
At 31 December 2018	31,086	6,432	167	37,685

13. Tangible fixed assets (continued)

The company has no tangible fixed assets.

The hotel freehold property were valued at 31 December 2018 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. This resulted in a £230,000 devaluation in the hotel properties.

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.

14. Fixed asset investments

Company

	Investments in subsidiary companies £000
Cost	
Additions	**11,200**
Acquired from business combinations (Note 26)	**36,631**
At 31 December 2018	**47,831**
Impairment	
Charge for the period	**8,661**
At 31 December 2018	**8,661**
Net book value	
At 31 December 2018	**39,170**

Additions in the period reflect a capitalisation of intercompany debt in the hotel based subsidiary.

14. Fixed asset investments (continued)

Subsidiary undertakings

The following were subsidiary undertakings of the company:

Name	Country of incorporation	Principal activity	Class of shares	Holding
Farncombe Estate Holdings Limited	UK	Hotels	Ordinary	100%
Farncombe Estate Limited*	UK	Hotels	Ordinary	100%
Dormy House Hotel Limited*	UK	Hotels	Ordinary	100%
The Fish Hotel Limited*	UK	Hotels	Ordinary	100%
Foxhill Manor Limited*	UK	Dormant	Ordinary	100%
Skagen Property Limited	UK	Property holding company	Ordinary	100%
Skagen Finance Limited	UK	Intercompany - finance provider	Ordinary	100%

All of the above entities are registered at Farncombe House, Broadway, Worcestershire, WR12 7LJ.

*shareholdings held via Farncombe Estate Holdings Limited

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

The impairment of investments reflects the excess of the investment cost over the value of the underlying equity in the investments.

15. Investment property

Group

	Investment property £000
Valuation	
Additions	8,037
Revaluation	(928)
On acquisition of subsidiaries (note 26)	8,697
At 31 December 2018	**15,806**

Farncombe Estates Holdings Limited

The investment properties were valued at 31 December 2018 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. This resulted in a devaluation of the hotel assets of £278,000

.

The historical cost of the revalued properties cannot be obtained due to insufficient reliable evidence.

Skagen Property Limited

As at 31 December 2016 the investment property was revalued at the basis of open market value by independent qualified valuers. The property valuation was undertaken in accordance with the definitions in the RICS valuation - Professional Standards, incorporating the International Valuation Standards, and the valuation was provided in accordance with the Valuations Standards, Practice Statements and Guidance notes contained therein. The directors have updated their assessment, based on rental yields and comparable local properties, and consider that the value of the investment property should be reduced to reflect the downturn in the property market since the qualified valuers' opinion was obtained. Consequently an impairment of £650,000 was made to the carrying value of a London property.

If the revalued land and buildings had not been included at valuation they would have been included under the historical cost convention of £14,140,000 (on acquisition - £5,900,000).

The company has no investment property.

16. *Inventories*

	Group 2018 £000
Raw materials and consumables	**48**
Goods for resale	**139**
	187

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

The company has no inventories.

17. Debtors

	Group 2018 £000	Company 2018 £000
Amounts falling due within one year:		
Trade debtors	**180**	**-**
Amounts owed by related party undertakings	**1,700**	**-**
Amounts owed by group undertakings	**-**	**45**
Other debtors	**100**	**-**
Prepayments and accrued income	**284**	**-**
	2,264	**45**

Trade debtors are stated after provision for impairment of £3,000 for the group and £Nil for the company.

Amounts owed by related party undertakings are repayable on demand, unsecured and interest free. They are stated after provision for impairment of £Nil.

18. Debtors: amounts falling due after more than one year

	Group 2018 £000
Loan to third party	**1,440**

This loan, secured against property, carries interest at market rates. There is a put and call option associated with the loan which is exercisable after 2 years and not considered to have a material value at the period end.

19. Creditors: Amounts falling due within one year

	Group 2018 £000	Company 2018 £000
Trade creditors	789	-
Amounts owed to related party undertakings	6,100	-
Other taxation and social security	273	35
Accruals and deferred income	1,452	-
	8,614	35

On 25 May 2018 Skagen Property Limited entered into a £6,100,090 unsecured intercompany loan arrangement with SHL3BT Limited. The loan bears interest at one month GBP LIBOR + 4.5% and is repayable on demand. The balance outstanding at 31 December 2018 was £6,100,090. The facility with SHL3BT is for £8m on an unsecured basis with a further £2m also being available on an unsecured basis at the discretion of the lender.

20. Creditors: Amounts falling due after more than one year

	Group 2018 £000
Bank loans	9,000
Amounts owed to related party undertakings	500
	9,500

The bank loans totalling £9,000,000 bear interest at Intercontinental Exchange LIBOR plus 1.5% which is settled monthly. It is part of a wider related party borrowing facility which is repayable in full on 3 December 2021 and is secured by a joint and several related party guarantee.

Amounts owed to related parties comprise loan notes bearing interest at sterling one month LIBOR plus 370 basic points. The loan notes are unsecured and repayable by 9 December 2020.

21. Loans

	Group 2018 £000
Amounts falling due 2-5 years	
Bank loans	9,000

22. Net debt

£'000	At incorporation	Acquired with subsidiaries	Cash flows					Non cash movements	At 31 December 2018
			Operating	Capex	Interest	Loans Repaid	Loans Drawn		
Cash at bank and in hand	-	1,255.0	17,681.0	(14,145.0)	(933.0)	(19,750.0)	17,100.0	-	1,208.0
Short term deposits	-								-
Cash and cash equivalents	**-**	**1,255.0**	**17,681.0**	**(14,145.0)**	**(933.0)**	**(19,750.0)**		**-**	**1,208.0**
Loans from related parties	-	19,250.0	-	-	-	(19,250.0)	17,100.0	(10,500.0)	6,600.0
Bank loans	-	9,500.0	-	-	-	(500.0)	-	-	9,000.0
Total Debt	**-**	**28,750.0**	**-**	**-**	**-**	**(19,750.0)**	**17,100.0**	**(10,500.0)**	**15,600.0**
Net Debt	**-**	**27,495.0**	**(17,681.0)**	**14,145.0**	**933.0**	**-**	**17,100.0**	**(10,500.0)**	**14,392.0**

23. 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.

24. Share capital

Group and Company

	2018 £000
Allotted, called up and fully paid	
48,831,459 Ordinary shares of £1.00 each	**48,831**

During the period 48,831,460 Ordinary shares were issued at £1 each. The total consideration received for these shares was £48,831,460.

25. Reserves

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

26. Business combinations

On the 12th October 2017 the group acquired 100% of Skagen Run Off Limited for £36,631k.

Acquisition of the group of companies from Skagen Run Off Limited.

Recognised amounts of identifiable assets acquired and liabilities assumed

	Book value £000	Fair value adjustment £000	Fair value £000
Tangible fixed assets (note 13)	37,136	-	37,136
Investment properties (note 15)	8,697	-	8,697
Stocks	158	-	158
Debtors	21,488	-	21,488
Cash at bank and in hand	1,255	-	1,255
Total assets	68,734	-	68,734
Creditors	(3,059)	-	(3,059)
Bank loans	(9,500)	-	(9,500)
Financing from group companies	(19,250)	-	(19,250)
Total identifiable net assets	36,925	-	36,925
Goodwill (note 12)			(294)
Total purchase consideration (including expenses of £nil)			36,631

In calculating the goodwill arising on acquisition, the fair value of the net assets of £36,925k have been assessed and adjustments from book value have been made where necessary.

27. Consideration

	2018 £000
Purchase Consideration	36,631
Less: Cash acquired with subsidiary companies	(1,255)
Amount settled through issue of share capital	**35,376**

The results of the businesses since their acquisition are as follows:

	Current period since acquisition £000
Turnover	15,194
Loss for the period	(7,898)

28. Pensions

Pension arrangements are provided through a stakeholder scheme, with benefits to pensioners based upon contributions made. The total pension cost for the year was £313,000. As at 30 December 2018 there were £63,000 of pension contributions unpaid.

29. Operating lease commitments

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

	Group 2018 £000
Not later than 1 year	42
Later than 1 year and not later than 5 years	11
Later than 5 years	-
	53

30. Related party transactions

Rental income of £204,000 was earned by Skagen Property Limited during the period from Skagen onscience Capital Limited (formerly Skagen Services UK Limited), a related party due to a common parent. Funding is provided for SCCL3 Limited, Skagen Property Limited and Skagen Finance Limited from SCCL3's parent Company, SHL3BT Limited, as set out in note 19 to the accounts. Transaction with directors of subsidiary companies who are related parties totalled £117,768 in the period in respect of Hospitality Services.

31. Controlling party

The company is a wholly owned subsidiary of SHL3BT Limited, a company incorporated in Guernsey. The ultimate controlling party is the SIB3 Business Trust, a trust registered in Guernsey.