Company number 02868025

Royal Armouries (International) plc
Report and financial statements
for the year ended 31 December 2017

Royal Armouries (International) plc

Company information

Directors
M R Bryant (appointed 22 January 2018)
W J Priest (appointed 22 January 2018)
D Thompson (appointed 22 January 2018)
J V Vincent (resigned 22 January 2018)
M J Burrows BSc, ACA (resigned 22 January 2018)
C G O'Boyle B Eng, C Eng, FI Mech E, MCIBSE (resigned 22 January 2018)

Secretary
M R Bryant (appointed 22 January 2018)
M J Burrows BSc, ACA (resigned 22 January 2018)

Registered office
Armouries Drive
Leeds
West Yorkshire
LS10 1LT

Independent auditors
Ernst & Young LLP
1 Bridgewater Place
Water Lane
Leeds
LS11 5QR

Bankers
Barclays
PO Box 190
2nd Floor
1 Park Row
Leeds
LS1 5WU

Strategic Report

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

Business review
The principal activity of the company is the exclusive provision of corporate entertainment, catering and commercial exhibitions at the Royal Armouries Museum and New Dock Hall in Leeds Dock, Leeds and associated car parking.

In addition, the company is actively involved with its PFI partner, the Trustees of the Royal Armouries, in promoting both the Royal Armouries Museum in Leeds and the New Dock Development, and exploring areas of mutual commercial benefit.

Key performance indicators ("KPI's")
The company's key financial performance indicators during the year were as follows:

	2017 £'000	2016 £'000	Change %
Turnover	5,151	5,265	(2%)
Operating profit before depreciation	1,290	1,428	(10%)
Bank loans less cash and cash equivalents	(65)	(831)	(92%)

Turnover has fallen by 2% due to a slight decline in car park revenues.

Operating profit before depreciation has fallen by 10% as a direct result of the fall in turnover detailed above and inflationary pressure on food and beverage costs.

The Company's focus is on reducing net secured debt as calculated above. The 92% reduction arises from significant cashflows being generated during the year.

Principal risks and uncertainties
The directors consider and manage the risks and uncertainties facing the company on a regular basis. These can be broadly grouped into operational and financial instrument risks.

Operational risks
The company generates a significant proportion of its revenue from the letting of rooms and areas under its control for events, and the supply of services to those events. If the ability to let these spaces was fundamentally compromised, for example by failure to materially comply with legislation or operating agreements, then the company's ability to generate satisfactory cash flows could consequently be compromised. The Company's operational, control and monitoring procedures have been developed to ensure compliance with the Concession Agreement and current legislation.

Strategic Report (continued)

Financial instrument risks

Price risk
The company has exposure to food and beverage commodities price risk, along with changes to the government's wages legislation; however the impact of such exposure is not sufficiently material to warrant dedicated risk management. The company has no exposure to equity price risk as it holds no listed or other equity investments. The introduction of the National Living wage, coupled with auto-enrolment, means that the Government is essentially driving the Company's wage policy for the foreseeable future. Future guidance of these rates allows the Company to model the financial impact, and take appropriate steps to accommodate the impact.

Credit risk
The company adopts a contractual policy with its clients whereby the vast majority of cash is collected in advance of delivery of services, thereby eliminating exposure to a material counterparty default.

Liquidity risk
The Company makes monthly fixed repayments of capital and interest, based on a secured bank debt profile amortising over 15 years. The Company has entered into various covenants associated with this facility, among which is a covenant to achieve a minimum annual level of cash generation to service this debt. The company retains a robust level of readily available cash to provide against unforeseeable short term threats to cash generation and to avoid the need for use of an overdraft facility.

Interest rate cash flow risk
The Company reviewed the interest rate environment leading up to and throughout the refinancing which concluded in April 2015. In light of the consensus forecast that interest rates were to remain steady for the short to medium term it was decided not to hedge against the bank loans, thereby maximising repayment of capital.

On behalf of the Board

M R Bryant, **Secretary**
22 June 2018

Directors' report

The directors present their annual report together with the audited financial statements of the company for the year ended 31 December 2017.

Directors
The directors of the company are set out on page 1.

Dividends
The directors do not recommend a final dividend (2016 - £nil).

Post balance sheet event
On 22 January 2018 the entire share capital of the company was acquired by the Secretary of State for Digital, Culture, Media and Sport ("DCMS"). As noted in press releases from the DCMS the intention is that the trading activities of RAI will be transferred to the control of its sponsored body,, the Trustees of the Royal Armouries, so that the future promotion of both the Royal Armouries Museum in Leeds and the New Dock Development will effectively be the responsibility of just one entity.

Financial risk management
The company has chosen in accordance with section 414C(11) of the Companies Act 2006 to set out information related to its financial risk management objectives in the Strategic Report.

Statement of disclosure of information to auditors
We, the directors of the company who held office at the date of approval of these financial statements as set out above each confirm, so far as we are aware, that:

- there is no relevant audit information of which the company's auditors are unaware; and

- we have taken all the steps that we ought to have taken as directors in order to make ourselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Re-appointment of auditors
In accordance with s.485 of the Companies Act 2006, a resolution is to be proposed at the Annual General Meeting for re-appointment of Ernst & Young LLP as auditors to the Company.

By order of the Board

Marc Bryant
Secretary
19 June 2018.

Directors' statement of responsibilities

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

to the members of Royal Armouries (International) plc

Opinion

We have audited the financial statements of Royal Armouries (International) plc for the year ended 31 December 2017 which comprise the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Cash Flow, the Statements of Changes in Equity and the related notes 1 to 19, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". As disclosed in notes, the accounts have been prepared on a basis other than going concern.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Independent auditors' report

to the members of Royal Armouries (International) plc (Continued)

Opinions on other matters prescribed by the Companies Act 2006

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

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

- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on pages 4 & 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

Independent auditors' report

to the members of Royal Armouries (International) plc (Continued)

Use of our report

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

Ernst & Young LLP

Peter Buckler (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Leeds
27th June 2018

Royal Armouries (International) plc

Statement of Comprehensive Income for the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Turnover	2	**5,151**	5,265
Cost of sales		**(1,124)**	(1,073)
Gross profit		**4,027**	4,192
Administrative expenses		**(2,737)**	(2,764)
Depreciation		**(617)**	(915)
Operating profit	3	**673**	513
Interest receivable and similar income	5	**-**	-
Interest payable and similar charges	6	**(141)**	(2,086)
Profit/(Loss) on ordinary activities before taxation		**532**	(1,573)
Tax on profit on ordinary activities	7	**(180)**	(105)
Profit/(Loss) for the financial year		**352**	(1,678)
Other comprehensive income		**-**	-
Total comprehensive income for the year		**352**	(1,678)

All activities in the current year and prior year relate to continuing operations.

Royal Armouries (International) plc

Statement of Changes in Equity for the year ended 31 December 2017

	Called up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Profit and loss account £'000	Total equity £'000
At 1 January 2016	857	143	40	7,680	8,720
Loss for the year	-	-	-	(1,678)	(1,678)
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	(1,678)	(1,678)
Redemption of 'B' preference shares	-	-	14	(14)	-
Equity dividends paid	-	-	-	-	-
At 31 December 2016	857	143	54	5,988	7,042
Profit for the year	-	-	-	352	352
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	352	352
Equity dividends paid	-	-	-	-	-
At 31 December 2017	**857**	**143**	**54**	**6,340**	**7,394**

Royal Armouries (International) plc

Statement of Financial Position as at 31 December 2017

	Note	2017 £'000	2016 £'000
Fixed assets			
Tangible assets	8	**11,138**	11,704
Current assets			
Stocks	9	**69**	63
Debtors	10	**157**	148
Cash at bank and in hand		**2,837**	2,319
		3,063	2,530
Creditors: amounts falling due within one year	11	**(3,285)**	(3,505)
Net current liabilities		**(222)**	(975)
Total assets less current liabilities		**10,916**	10,729
Creditors: amounts falling due after more than one year	12	**(2,963)**	(3,108)
Provisions for liabilities			
Deferred tax	7	**(559)**	(579)
Net assets		**7,394**	7,042
Capital and reserves			
Called up share capital	14	**857**	857
Share premium account	15	**143**	143
Capital redemption reserve	15	**54**	54
Profit and loss account		**6,340**	5,988
Shareholders' funds		**7,394**	7,042

The financial statements were approved by the board of directors on 19 June 2018 and were signed on its behalf by:

Marc Bryant
Director

William Priest
Director

Royal Armouries (International) plc

Statement of Cashflows
for the year ended 31 December 2017

	2017 £'000	2016 £'000
Cash flows from operating activities		
Profit before tax/(loss) for the financial year	**532**	(1,678)
Adjustments for:		
Depreciation of tangibles	**617**	915
Finance costs	**141**	2,086
Finance income	**-**	-
Loss on disposal of fixed assets	**-**	8
(Increase)/decrease in inventories	**(6)**	6
Increase in trade and other receivables	**(9)**	(12)
Increase in trade and other payables	**56**	2
	1,331	1,327
Corporation tax paid	**(31)**	105
Net cash flows from operating activities	**1,300**	1,432
Investing activities		
Purchase of property, plant and equipment	**(51)**	(95)
Sale of property, plant and equipment	**-**	-
Net cash flows used in investing activities	**(51)**	(95)
Financing activities		
Interest received	**-**	-
Interest paid	**(83)**	(103)
'B' Preference Shares redeemed	**-**	(2,000)
Directors' loans received	**-**	2,000
Directors' loans repaid	**(400)**	(200)
Repayment of borrowings	**(248)**	(337)
Net cash flows used in financing activities	**(731)**	(640)
Net increase in cash and cash equivalents	**518**	697
Cash and cash equivalents at 1 January	**2,319**	1,622
Cash and cash equivalents at 31 December	**2,837**	2,319

Royal Armouries (International) plc

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

1. **Statement of Accounting Policies**

Statement of compliance

Royal Armouries (International) plc is a limited liability company incorporated in England. The company's financial statements have been prepared in compliance with FRS 102 as it applies to the financial statements of the company for the year ended 31 December 2017.

Basis of preparation

The financial statements of Royal Armouries (International) plc were authorised for issue by the Board of Directors on 19 June 2018]. The financial statements have been prepared in accordance with applicable accounting standards. The financial statements have been prepared in sterling which is the functional currency of the company.

RAI Plc provide corporate entertainment, catering and commercial exhibitions at the Royal Armouries Museum and New Dock Hall. In January 2018 the company was sold to the DCMS with the intention of passing control of the trading activities to the Royal Armouries Museum. The Company intends to cease trading and then commence a solvent liquidation process. The timescale for the transfer of trade has already been committed. The liquidation process has not yet been timetabled but is likely to commence within 12 months from the date of approval of these financial statements.

The Company may retain responsibility for the wind down of the current business, including the transfer of employees and certain assets and liabilities to the new operator and the settlement of transactions, receivables and payable. This can take some time to complete. In accordance with the requirements of FRS 102.3.8, these financial statements are prepared on a basis other than going concern to reflect the fact that trading is highly likely to cease and a liquidation is probable. Nevertheless, assets continue to be carried at their recoverable amount which reflects the operation of the business until a sale or transfer is agreed.

Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements:

Impairment of non-financial assets
Where there are indicators of impairment of individual assets, the Company performs impairment tests based on fair value less costs to sell, or a value in use calculation. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction on similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from forecasts and expectations for the next five years, extrapolated to the termination date of the operating Concession and do not include restructuring activities that the Company is not yet permitted to undertake or significant future investments that will enhance the asset's performance or the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash flows and the growth rate used for extrapolation purposes.

If the recoverable amount is less than its carrying amount, the carrying amount of the asset is impaired and it is reduced to its recoverable amount through an impairment in profit and loss.

Fair value of B Preference Shares
The 'B' preference shares had an independently determined fair value as at February 2015, compared to the original book value of £7,120,000 with a backstop redemption date of 2029. The difference between these two sums as adjusted for the partial redemption in 2016 is an effective finance cost, and each year's allocation is calculated by reference to the internal rate of return necessary to discount the book value at the redemption date to the fair value at the balance sheet date.

The following estimates are dependent upon assumptions which could change in the next financial year and have a material effect on the carrying amounts of assets and liabilities recognised at the balance sheet date:

Taxation
The Company establishes provisions based on reasonable estimates. The amount of such provisions is based on various factors, such as experience with previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

Management estimation is required to determine the amount of deferred tax assets that can be recognised, based upon likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. Further details are contained in note 7.

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

1. Statement of Accounting Policies (continued)

Significant Accounting Policies

Tangible assets and depreciation
Tangible assets are stated at cost less depreciation and any provisions for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Plant and Machinery	between 2 and 40 years
Leasehold property	over the length of the lease

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Revenue recognition
Revenue is recognised to the extent that the company obtains the right to consideration in exchange for its performance, and this right materialises upon the date that the client holds its event, when a sale is made in the catering outlets or, in the case of car park revenues, income is accrued on a straight line basis between rental periods. Revenue is measured at the fair value of consideration received, excluding VAT and other sales taxes or duty. Revenue is attributable to the company's continuing principal activity of corporate hospitality, catering and other sales which arise wholly within the United Kingdom.

Cancellation fees
Cancellation fees are accounted for on a received basis.

Stocks
Stocks are valued at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition and is determined based on the first in first out method. Net realisable value is the price at which stocks can be sold in the normal course of business after allowing for the costs of realisation. Where necessary, provision is made for obsolete, slow moving and defective stocks.

Operating leases
Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term. Lease incentives are recognised over the lease term on a straight line basis.

Pensions
The company operates a defined contribution scheme for the benefit of its employees. Contributions payable are charged to the profit and loss account in the year in which they are payable.

Financial Assets

Initial Recognition and measurement
The Company determines the classification of its financial assets at initial recognition. All financial assets are recognised initially at fair value plus directly attributable transaction costs.

Financial liabilities

Initial Recognition and measurement
The company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value, and in the case of loans and borrowings, plus directly attributable transaction costs.

Directors' loan accounts
All Directors' loan accounts are unsecured, bear no interest and are repayable immediately upon demand. As such they are recorded at their nominal value and classified as a current liability.

Interest bearing loans and borrowings
Obligations for loans and borrowings are recognised when the company becomes party to the related contracts and are measured initially at the fair value of consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in finance revenue and finance cost.

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

1 Statement of accounting policies (continued)

Derecognition of financial liabilities
A liability is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss.

Current taxation
Current tax is provided at amounts expected to be paid or recovered using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

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

- Unrelieved tax losses and other deferred tax assets are recognised only to the extent that the directors consider that it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Classification of shares as debt or equity
An equity instrument is a contract that evidences a residual interest in the assets of an entity after deducting all its liabilities. Accordingly, a financial instrument is treated as equity if:

- There is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on terms that may be unfavourable; and
- The instrument is a non-derivative that contains no contractual obligations to deliver a variable number of shares or is a derivative that will be settled only by the company exchanging a fixed amount of cash or other assets for a fixed number of the company's own equity instruments.

When shares are issued, any component that creates a financial liability of the company is presented as a liability in the balance sheet; measured initially at fair value net of transaction costs and thereafter at amortised cost until extinguished on conversion or redemption. The corresponding dividends relating to the liability component are charged as interest expense in the income statement. The initial fair value of the liability component is determined using a market rate for an equivalent liability without a conversion feature.

The remainder of the proceeds on issue is allocated to the equity component and included in shareholders' equity, net of transaction costs. The carrying amount of the equity component is not re-measured in subsequent years.

Transaction costs are apportioned between the liability and equity components of the shares based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

Finance costs
The interest element of the fixed monthly bank loan repayments is advised by the bank and charged to the profit and loss account.

The arrangement fee for the bank loan has been rolled into the loan and is amortised over the period of the loan facility on a straight line basis.

The 'B' preference shares had an independently determined fair value of £173,000 as at February 2015, compared to a book value of £7,120,000 with a backstop redemption date of 2029. The difference between these two sums is an effective interest cost, and each year's allocation is calculated by reference to the internal rate of return necessary to discount the book value at the redemption date to the fair value at the balance sheet date. The early redemption in 2016 of £2,000,000 of the original £7,120,000 has been treated as an early redemption cost with that cost being calculated in accordance with FRS102 11.38 as the difference between the fair value of the new liability assumed and the fair value of the liability derecognised.

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

2 Turnover

The company's turnover and operating profit relate entirely to its principal activities, undertaken in the United Kingdom. An analysis of turnover by classification is as follows:

	2017 £'000	2016 £'000
Rendering of services	4,585	4,608
Car park income	566	657
	5,151	5,265

3 Operating profit

Operating profit is stated after charging/(crediting):

	2017 £'000	2016 £'000
Depreciation of tangible assets - owned assets	617	915
Rental income	(492)	(461)
Operating lease charges – land and buildings	492	461
Operating lease charges – plant and machinery	2	1
Loss on disposal of fixed assets	-	(8)
Auditors' remuneration – audit of the financial statements	17	17
Auditors' remuneration – taxation compliance	10	10
Auditors' remuneration – taxation advisory	7	27

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

4 Staff costs and directors' remuneration

	2017 £'000	2016 £'000
Wages and salaries	**1,479**	1,440
Social security costs	**121**	119
Other pension costs	**41**	40
	1,641	1,599

The monthly average number of employees (including executive directors) during the year was:

	2017 Number	2016 Number
Operational	**66**	63
Administration	**10**	9
	76	72

A significant proportion of the 66 (2016: 63) operational staff was part time employees. The average weekly number of full time equivalent operational employees was 39 (2016: 38).

Directors' emoluments comprised:

	2017 £'000	2016 £'000
Aggregate emoluments	**262**	284
Company contribution to money purchase pension schemes	**26**	26
	288	310

The number of directors to whom retirement benefits are accruing under money purchase pension schemes amounted to two (2016: two).

The highest paid director received remuneration totalling £126,000 (2016 - £148,000) and received payments into a money purchase pension scheme of £15,000 (2016 - £15,000)

The directors are considered to be the key management. The total cost of the key management including pensions and employers' national insurance contributions was £324,000 (2016: £352,000)

5 Interest receivable and similar income

	2017 £'000	2016 £'000
Bank interest receivable	-	-

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

6 Interest payable and similar charges

	2017 £'000	2016 £'000
Interest payable and similar charges on bank loans	**76**	93
Amortisation of bank loan arrangement fees	**7**	10
Exceptional finance cost of partial redemption of 'B' Preference shares	-	1,938
Effective interest relating to 'B' preference shares	**58**	45
	141	2,086

The exceptional finance cost arising from early partial redemption of the 'B' Preference shares is a non-cash transaction.

7 Tax

	2017 £'000	2016 £'000
Current tax		
UK corporation tax on profit/(loss) for the year	**200**	31
Adjustments in respect of previous years		-
Total current tax		31
Deferred tax		
Origination and reversal of timing differences	**(20)**	74
Total deferred tax	**(20)**	74
Tax on profit/(loss) on ordinary activities	**180**	105

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

	2017 £'000	2016 £'000
Profit/(loss) on ordinary activities before taxation	**532**	(1,573)
Profit/(loss) on ordinary activities at the standard UK tax rate of 19.25% (2016: 20%)	**102**	(315)
Non-taxable income and disallowed expenses	**75**	464
Income not taxable	-	-
Adjustment from previous periods	-	2
Tax rate changes	**3**	(46)
Total tax charge/(credit)	**180**	105

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

7 Tax on profit/(loss) on ordinary activities (continued)

Factors affecting current and future tax changes

A reduction in corporation tax rate from 21% to 20% took effect from 1 April 2015. The 2015 Summer Finance Act enacted UK corporation tax reductions to 19% from 1 April 2017 and to 18% from 1 April 2020. The 2016 Finance Act the superseded this, introducing a reduction in the UK corporation tax rate to 17% from 1 April 2020.

Accordingly, these rates have been applied in the measurments of the deferred tax assets and liabilities at 31 December 2017.

Deferred tax

	£'000
At 1 January 2017	579
Deferred tax chargeto the profit and loss account	(20)
At 31 December 2017	**559**

The deferred tax liability is made up as follows:

	2017 £'000	2016 £'000
Accelerated capital allowances	**567**	587
Other timing differences	**(1)**	(1)
Tax liability carried forward	**(7)**	(7)
Provision for deferred tax	**559**	579

It is estimated that within 12 months of the date of the Statement of Financial Position, £19,000 (2016 - £78,000) of deferred tax liabilities and £nil (2016 - £nil) of deferred tax assets will reverse.

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

8 Tangible assets

	Long leasehold land and buildings £'000	Plant and machinery £'000	Total £'000
Cost			
At 1 January 2017	18,700	15,286	33,986
Additions	-	51	51
Disposals	-	-	-
At 31 December 2017	**18,700**	**15,337**	**34,037**
Accumulated depreciation			
At 1 January 2017	9,811	12,471	22,282
Charge for the year	325	292	617
Disposals	-	-	-
At 31 December 2017	**10,136**	**12,763**	**22,899**
Net book amount			
At 31 December 2017	**8,564**	**2,574**	**11,138**
At 31 December 2016	8,889	2,815	11,704

9 Stocks

	2017 £'000	2016 £'000
Food and beverages	**69**	63

10 Debtors

	2017 £'000	2016 £'000
Trade debtors	**21**	19
Prepayments and accrued income	**136**	129
	157	148

11 Creditors: amounts falling due within one year

	2017 £'000	2016 £'000
Bank loans (note 13)	**201**	247
Directors' loans	**1,400**	1,800
Trade creditors	**605**	540
Corporation tax	**200**	31
Other taxation and social security	**279**	281
Retentions	**39**	39
Accruals and deferred income	**561**	567
	3,285	3,505

12 Creditors: amounts falling due after more than one year

	2017 £'000	2016 £'000
Bank loans (note 13)	**2,701**	2,903
'B' preference shares	**262**	205
	2,963	3,108

13 Loans and other borrowings

(a) Bank Loans

The bank loans included in creditors of £2,902,000 (2016: £3,150,000) are wholly repayable within five years.

At the year end, the bank loans bear interest at a rate of 235 basis points above Base Rate and are repayable by fixed monthly instalments, comprising both interest and principal, over the period of 5 years from April 2015. The principal element of these repayments is variable and represents amortisation of the loan over a 15 year period. The loan is secured by a fixed charge on the leasehold property, a floating charge on the other assets of the company, and a charge on the concession to operate as exclusive catering and corporate entertainment operator at the Royal Armouries Museum and New Dock Hall, Leeds.

(b) Directors' loans

The Directors' loans of £1,400,000 are unsecured, have no repayment date and bear no interest. These were repaid in full on22 January 2018.

(c) 'B' preference shares

The 'B' preference shares and associated preference share premium are redeemable in 2029, or earlier at the company's option. 'B' preference dividends are payable as an amount equal to the aggregate of any dividend declared on the Ordinary Shares. In the year following repayment in full of the bank loans, there confers the right to a dividend of 5% of the amount paid up on the 'B' preference shares.

The preference shares have no voting rights, other than class rights, at general meetings.

On winding-up the 'B' preference shareholders rank before all ordinary shareholders, and are entitled to the return of share capital, any related premium and outstanding dividends

14 Called up share capital

Allotted, called up and fully paid	2017 No.	2017 £	2016 No.	2016 £
'G' ordinary shares of £1 each	**64,286**	**64,286**	64,286	64,286
'B' ordinary shares of £1 each	**85,714**	**85,714**	85,714	85,714
'A' ordinary shares of £1 each	**707,142**	**707,142**	707,142	707,142
	857,142	**857,142**	857,142	857,142

Rights of each class of shares

'A', 'B', and 'G' ordinary shares

Dividends are payable only when the preference share dividends have been paid in full. Prior to a sale or listing of the company, the ordinary dividend is payable 67% to holders of 'B' ordinary shares and 33% to the holders of 'G' ordinary shares. After the sale or listing of the company, the ordinary dividend is payable 70% to the holders of the 'A' ordinary shares, 20% to the holders of 'B' ordinary shares and 10% to the holders of the 'G' ordinary shares.

All ordinary shares carry one vote at general meetings.

On winding-up all ordinary shares rank pari passu for the distribution of any remaining assets.

15 Reserves

Share premium

This reserve records the amount above nominal value received for Ordinary shares issued, less transaction costs.

Capital redemption reserve

This reserve records the nominal value of shares repurchased or redeemed by the company.

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

16 Operating lease commitments

At 31 December 2017, the company had future minimum rentals under non-cancellable operating leases as follows:

	2017 £'000	2016 £'000
Not later than one year	-	-
Later than one year and not later than five years	2	2
Later than five years	11,974	12,466
	11,976	12,468

The longer term lease obligations represent rent payable for the Royal Armouries Museum until the termination of the lease. These costs are mirrored by equal rental receipts from the Company's PFI partner, with the result that there is no net cost to the Company.

17 Post balance sheet event

On 22 January 2018 the entire share capital of the company was acquired by the Department for Digital, Culture, Media and Sport.

18 Related party transactions

During the year the Company repaid £400,000 of Directors' Loans, leaving an outstanding balance of £1,400,000 at the year end. This outstanding balance was repaid in full on 22 January 2018.

19 Ultimate controlling party

The ultimate controlling is the Secretary of State for Digital, Culture, Media and Sport.