# Report on the audit of the consolidated financial statements

## Opinion

We have audited the consolidated financial statements of PPHE Hotel Group Limited (the Company) and its subsidiaries (together, the Group), which comprises the consolidated statement of financial position as at 31 December 2019, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements:

1. give a true and fair view of the financial position of the Group as at 31 December 2019 and of its financial performance and its cash flows for the year then ended;
2. have been properly prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union; and
3. have been prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the consolidated financial statements' section of our report. We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), including the Crown Dependencies' Audit Rules and Guidance, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the key matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the 'Auditor's responsibilities for the audit of the consolidated financial statements' section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

## Key audit matter 2019

### 1. Adoption of International Financial Reporting Standard 16, Leases (IFRS 16)

As discussed in Notes 2 and 19 to the consolidated financial statements, the Group adopted IFRS 16, Leases, on 1 January 2019. As part of the adoption, the Group recognized lease liabilities and assets for leases with an initial term greater than twelve months. Upon adoption, the new operating lease liabilities recognized with corresponding right-of-use assets were approximately £39 million, which were in addition to the then existing finance lease liabilities of approximately £188 million and corresponding right-of-use assets of approximately £183 million. We identified the evaluation of the adoption of IFRS 16 as a key audit matter. Evaluating the Group's application of the IFRS 16 transition guidance and assessing the amounts at which the lease liabilities and assets were recognized and disclosed required subjective auditor judgment. Specifically, a high degree of auditor judgment was required in evaluating 1) the estimates and judgments associated with the lease adoption, 2) the transition impact for existing finance leases, and 3) the lease disclosures.

**How our audit addressed the matter**

- In auditing the impact of IFRS 16 on the Group, the primary procedures we performed included the following:
- We obtained an understanding of the Group's implementation process for the adoption of IFRS 16, including an understanding of the changes to the Group's administrative and accounting processes and internal controls.
- We evaluated the analyses of contracts prepared by the Group in order to identify lease arrangements that are in the scope of IFRS16 and compared such analyses to the underlying contracts on a sample basis.
- We assessed and tested, on a sample basis, the calculation of the lease liabilities and corresponding right-of-use assets as presented and disclosed in the Group's consolidated financial statements.
- We assessed, with the assistance of our internal valuation specialists, the reasonability of the assumptions used by the Group's external specialist in determining the incremental borrowing rates that were used to calculate the present value of the future lease payments.
- We evaluated and tested the appropriateness of the transition guidance applied in respect of finance leases that were in existence at the date of adoption of IFRS16.
- We assessed the disclosures included in the consolidated financial statements for compliance with the requirements of IFRS 16.

### 2. Decentralised operations

PPHE Hotel Group is a Group with more than 100 legal entities (together, the Group), grouped in four reportable segments. The geographical decentralised structure, multiplicity of IT systems and the number of Group entities (components) increase the complexity of the Group's control environment and thus, effects our ability as Group auditor to obtain an appropriate level of understanding of these components. Also in our role as Group auditor it is essential that we obtain an appropriate level of understanding of the significant components in the Group and the audit work performed by the component's auditors.

## How our audit addressed the matter

We have evaluated the Group's internal controls, including the centralised monitoring controls that exist at both Group and segment level. The Group has developed an internal control framework with control activities that are required to be implemented by the components. Management continually reviews its systems and procedures for improvements and harmonisation across the Group.

During our audit, we have specifically focused on risks in relation to the decentralised structure and, as a result, we have extended our involvement in audit work performed by the components' auditors. Among other audit procedures, we organised site visits, meetings and conference calls with components' auditors. We have also requested components' auditors to specifically address certain risks and attention areas defined at Group level, by requiring all teams to perform specific audit procedures in order to ensure a consistent approach in areas that were deemed most relevant from a Group audit perspective to mitigate the risks identified by the Group auditor. We also performed tests on consolidation adjustments and manual journal entries, both at Group and component level to obtain an understanding of significant entries made.

## Other information included in the Group's 2019 Annual Report

Other information consists of the information included in the 2019 Annual Report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. 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.

## Responsibilities of management and the Audit Committee for the financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 management either intends to liquidate the Group or to cease operations or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

## Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 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 consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

1. identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
2. obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
3. evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
4. conclude, on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
5. evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
6. obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on other legal and Regulatory Requirements:

Pursuant to Section 9.8.10 (1) and (2) of the Listing Rules in the United Kingdom, we were engaged to review Management's statement pursuant to Section 9.8.6 R (6) of the Listing Rules of the Financial Conduct Authority that relate to provisions 6 and 24 to 29of the UK Corporate Governance Code and Management Board's statement pursuant to Section 9.8.6 R (3) of Listing Rules of the Financial Conduct Authority in the financial year 2019 included in the 'Viability statement' of management report and in the section 'Going concern reporting according to the UK Corporate Governance Code'. We have no exceptions to report.

The partner in charge of the audit resulting in this independent auditor's report is Chen Shein.

**CHEN SHEIN**
(FOR AND ON BEHALF OF KOST FORER GABBAY & KASIERER, MEMBER OF ERNST & YOUNG GLOBAL)
TEL AVIV, ISRAEL
26 FEBRUARY 2020

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | | As at 31 December | |
|---|---|---|---|
| | Note | **2019 £'000** | 2018 £'000 |
| **Assets** | | | |
| **Non-current assets:** | | | |
| Intangible assets | 4 | **18,036** | 21,463 |
| Property, plant and equipment | 5 | **1,113,661** | 1,270,785 |
| Right-of-use assets | 19 | **217,990** | – |
| Investment in joint ventures | 6 | **18,151** | 4,346 |
| Other non-current assets | 7 | **18,358** | 18,027 |
| Restricted deposits and cash | 14(b) | **1,841** | 1,884 |
| Deferred income tax asset | 27 | **5,173** | 95 |
| | | **1,393,210** | 1,316,600 |
| **Current assets:** | | | |
| Restricted deposits and cash | 14(b) | **3,541** | 3,672 |
| Inventories | | **2,317** | 2,481 |
| Trade receivables | 8 | **12,758** | 15,324 |
| Other receivables and prepayments | 9 | **15,065** | 12,016 |
| Other current financial assets | 10 | **5,221** | 4,449 |
| Cash and cash equivalents | 11 | **153,029** | 207,660 |
| | | **191, 931** | 245,602 |
| Total assets | | **1,585,141** | 1,562,202 |
| **Equity and liabilities** | | | |
| **Equity:** | 12 | | |
| Issued capital | | **–** | – |
| Share premium | | **130,260** | 130,061 |
| Treasury shares | | **(3,636)** | (3,636) |
| Foreign currency translation reserve | | **8,094** | 23,131 |
| Hedging reserve | | **(655)** | (437) |
| Accumulated earnings | | **243,233** | 224,373 |
| Attributable to equity holders of the parent | | **377,296** | 373,492 |
| Non-controlling interests | | **103,465** | 105,050 |
| Total equity | | **480,761** | 478,542 |
| **Non-current liabilities:** | | | |
| Borrowings | 15 | **664,945** | 681,981 |
| Provision for litigation | 16(a) | **–** | 3,873 |
| Provision for concession fee on land | 16(b) | **4,730** | 4,330 |
| Financial liability in respect of Income Units sold to private investors | 17 | **126,704** | 129,151 |
| Other financial liabilities | 18,19 | **228,973** | 188,269 |
| Deferred income taxes | 27 | **7,920** | 7,115 |
| | | **1,033,272** | 1,014,719 |
| **Current liabilities:** | | | |
| Trade payables | | **10,466** | 12,162 |
| Other payables and accruals | 20 | **47,326** | 41,469 |
| Borrowings | 15 | **13,316** | 15,310 |
| | | **71,108** | 68,941 |
| Total liabilities | | **1,104,380** | 1,083,660 |
| Total equity and liabilities | | **1,585,141** | 1,562,202 |

The accompanying notes are an integral part of the consolidated financial statements. Date of approval of the financial statements 26 February 2020. Signed on behalf of the Board by Boris Ivesha and Daniel Kos.

**BORIS IVESHA**
PRESIDENT & CHIEF EXECUTIVE OFFICER

**DANIEL KOS**
CHIEF FINANCIAL OFFICER & EXECUTIVE DIRECTOR

## CONSOLIDATED INCOME STATEMENT

| | Note | Year ended 31 December 2019 £'000 | 2018 £'000 |
|---|---|---|---|
| Revenues | 21 | **357,692** | 341,482 |
| Operating expenses | 22 | **(233,024)** | (220,775) |
| **EBITDAR** | | **124,668** | 120,707 |
| Rental expenses | | **(1,774)** | (7,535) |
| **EBITDA** | | **122,894** | 113,172 |
| Depreciation and amortisation | 4, 5, 19 | **(41,749)** | (35,903) |
| **EBIT** | | **81,145** | 77,269 |
| Financial expenses | 23 | **(32,089)** | (31,986) |
| Financial income | 24 | **2,923** | 1,568 |
| Other expenses | 25 | **(5,110)** | (10,688) |
| Other income | 25 | **2,225** | 20,394 |
| Net expenses for financial liability in respect of Income Units sold to private investors | 26 | **(10,795)** | (10,318) |
| Share in results of joint ventures | 6 | **178** | 144 |
| Profit before tax | | **38,477** | 46,383 |
| Income tax benefit (expense) | 27 | **4,105** | (2,951) |
| Profit for the year | | **42,582** | 43,432 |
| | | | |
| Profit attributable to: | | | |
| Equity holders of the parent | | **33,915** | 38,052 |
| Non-controlling interests | | **8,667** | 5,380 |
| | | **42,582** | 43,432 |
| | | | |
| **Basic and diluted earnings per share (in Pound Sterling)** | 28 | **0.80** | 0.90 |

The accompanying notes are an integral part of the consolidated financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Year ended 31 December | |
|---|---|---|
| | **2019** **£'000** | 2018 £'000 |
| Profit for the year | **42,582** | 43,432 |
| **Other comprehensive income (loss) to be recycled through profit and loss in subsequent periods:*** | | |
| Profit (loss) from cash flow hedges | **(423)** | (212) |
| Reclassification to the income statement of cash flow hedge results upon discontinuation of hedge accounting | **–** | (46) |
| Foreign currency translation adjustments of foreign operations | **(20,958)** | 6,515 |
| Other comprehensive income (loss) | **(21,381)** | 6,257 |
| Total comprehensive income | **21,201** | 49,689 |
| | | |
| Total comprehensive income attributable to: | | |
| Equity holders of the parent | **18,580** | 42,232 |
| Non-controlling interests | **2,621** | 7,457 |
| | **21,201** | 49,689 |

* There is no other comprehensive income that will not be reclassified to the profit and loss in subsequent periods.

The accompanying notes are an integral part of the consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| In £'000 | Issued capital[1] | Share premium | Treasury shares | Foreign currency translation reserve | Hedging reserve | Accumulated earnings | Attributable to equity holders of the parent | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| Balance as at 1 January 2018 | – | 129,878 | (3,636) | 18,816 | (302) | 198,599 | 343,355 | 97,593 | 440,948 |
| Profit for the year | – | – | – | – | – | 38,052 | 38,052 | 5,380 | 43,432 |
| Other comprehensive income (loss) for the year | – | – | – | 4,315 | (135) | – | 4,180 | 2,077 | 6,257 |
| Total comprehensive income | – | – | – | 4,315 | (135) | 38,052 | 42,232 | 7,457 | 49,689 |
| Share-based payments | – | 183 | – | – | – | – | 183 | – | 183 |
| Dividend distribution[2] | – | – | – | – | – | (12,278) | (12,278) | – | (12,278) |
| **Balance as at 31 December 2018** | **–** | **130,061** | **(3,636)** | **23,131** | **(437)** | **224,373** | **373,492** | **105,050** | **478,542** |
| Profit for the year | – | – | – | – | – | 33,915 | 33,915 | 8,667 | 42,582 |
| Other comprehensive income (loss) for the year | – | – | – | (15,117) | (218) | – | (15,335) | (6,046) | (21,381) |
| Total comprehensive income | – | – | – | (15,117) | (218) | 33,915 | 18,580 | 2,621 | 21,201 |
| Share-based payments | – | 199 | – | – | – | – | 199 | – | 199 |
| Dividend distribution[2] | – | – | – | – | – | (15,263) | (15,263) | – | (15,263) |
| Dividend distribution by a subsidiary | – | – | – | – | – | – | – | (1,454) | (1,454) |
| Refund of cost in connection with prior year transactions with non-controlling interest | – | – | – | – | – | 290 | 290 | 250 | 540 |
| Transactions with non-controlling interests (Note 6) | – | – | – | 80 | – | (82) | (2) | (3,002) | (3,004) |
| **Balance as at 31 December 2019** | – | 130,260 | (3,636) | 8,094 | (655) | 243,233 | 377,296 | 103,465 | 480,761 |

1 No par value.

2 The dividend distribution comprises a final dividend for the year ended 31 December 2018 of 19.0 pence per share (31 December 2017: 13.0 pence per share) and an interim dividend of 17 pence per share paid in 2019 (2018: 16.0 pence per share).

The accompanying notes are an integral part of the consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

| | Note | Year ended 31 December 2019 £'000 | 2018 £'000 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Profit for the year | | **42,582** | 43,432 |
| Adjustment to reconcile profit to cash provided by operating activities: | | | |
| Financial expenses and expenses for financial liability in respect of Income Units sold to private investors | | **42,884** | 41,625 |
| Financial income | 24 | **(2,023)** | (1,568) |
| Income tax charge (benefit) | 27 | **(4,105)** | 2,952 |
| Loss on buy-back of Income Units sold to private investors | 25 | **694** | 601 |
| Release of deposit from unit holder | 25 | **–** | (68) |
| Remeasurement of lease liability | 25 | **3,359** | 4,822 |
| Revaluation of Park Plaza County Hall London Units | 7 | **(923)** | – |
| Write off unamortised discount on early repayment of loan | | **–** | 314 |
| Capital loss, net | 25 | **92** | – |
| Loss (gain) from marketable securities | 23, 24 | **(900)** | 679 |
| Share in results of Joint Ventures | 6 | **(178)** | (144) |
| Gain on re-measurement of previously held interest in Joint Venture | 3 | **–** | (20,280) |
| Release of provision for litigation | 16a | **(1,093)** | – |
| Depreciation and amortisation | 4, 5, 19 | **41,749** | 35,903 |
| Share-based payments | | **199** | 183 |
| | | **79,755** | 65,019 |
| Changes in operating assets and liabilities: | | | |
| Decrease in inventories | | **68** | 257 |
| Increase in trade and other receivables | | **(40)** | (922) |
| Increase (decrease) in trade and other payables | | **2,043** | (5,659) |
| | | **2,071** | (6,324) |
| Cash paid and received during the period for: | | | |
| Interest paid | | **(44,664)** | (42,778) |
| Interest received | | **1,412** | 1,448 |
| Taxes paid | | **(1,748)** | (4,183) |
| Taxes received | | **743** | - |
| | | **(44,257)** | (45,513) |
| Net cash provided by operating activities | | **80,151** | 56,614 |
| Cash flows from investing activities: | | | |
| Investments in property, plant and equipment | 5 | **(72,422)** | (67,251) |
| Purchase of remaining interest in previously held Joint Venture | 3 | **–** | (34,549) |
| Proceeds from sale of property | 25 | **98** | – |
| Loan to third party | | **(591)** | – |
| Investment in Joint Venture | 6 | **(13,650)** | – |
| Purchase plot of land nearby Waterloo Station | 5 | **(12,582)** | – |
| Decrease (increase) in restricted cash | | **109** | (1,410) |
| Decrease in marketable securities, net | | **126** | 19,582 |
| Release of restricted deposit | | **–** | 22,000 |
| Net cash used in investing activities | | **(98,912)** | (61,628) |

The accompanying notes are an integral part of the consolidated financial statements.

| | Year ended 31 December | |
|---|---|---|
| | **2019** | 2018 |
| | **£'000** | £'000 |
| **Cash flows from financing activities:** | | |
| Proceeds from loans and borrowings | **9,600** | 61,330 |
| Buy-back of Income Units previously sold to private investors | **(1,622)** | (1,710) |
| Repayment of loans and borrowings | **(15,455)** | (78,096) |
| Repayment of leases | **(3,385)** | – |
| Net proceeds from transactions with non-controlling interest | **(3,004)** | – |
| Refund of cost in connection with prior year transactions with non-controlling interest | **540** | – |
| Dividend payment | **(15,263)** | (12,278) |
| Dividend payment by a subsidiary | **(1,454)** | – |
| Net cash used in financing activities | **(30,043)** | (30,754) |
| Increase (decrease) in cash and cash equivalents | **(48,804)** | (35,768) |
| Net foreign exchange differences | **(5,827)** | 2,407 |
| Cash and cash equivalents at beginning of year | **207,660** | 241,021 |
| Cash and cash equivalents at end of year | **153,029** | 207,660 |

| | | |
|---|---|---|
| **Non-cash items:** | | |
| Lease additions and lease remeasurement | **5,946** | – |
| Outstanding payable on investments in property, plant and equipment | **–** | 372 |

The accompanying notes are an integral part of the consolidated financial statements.

## Note 1 General

a. The consolidated financial statements of PPHE Hotel Group Limited (the 'Company') and its subsidiaries (together the 'Group') for the year ended 31 December 2019 were authorised for issuance in accordance with a resolution of the Directors on 26 February 2020.

The Company was incorporated in Guernsey on 14 June 2007 and is listed on the Premium Listing segment of the Official List of the UK Listing Authority (the UKLA) and the shares are traded on the Main Market for listed securities of the London Stock Exchange. It is also a constituent of the FTSE 250.

b. Description of the Group business:
The Group is an international hospitality real estate group, which owns, co-owns and develops hotels, resorts and campsites, operates the Park Plaza® brand in EMEA and owns and operates the art'otel® brand.

The Group has interests in hotels in the United Kingdom, the Netherlands, Germany and Hungary, and hotels, self-catering apartment complexes and campsites in Croatia.

c. Assessment of going concern:
As part of their ongoing responsibilities, the Directors have recently undertaken a thorough review of the Group's cash flow forecast and potential liquidity risks. Detailed budgets and cash flow projections have been prepared for 2020 and 2021 which show that the Group's hotel operations will be cash generative during the period. The Directors have determined that the Company is likely to continue in business for at least 12 months from the date of the consolidated financial statements.

## Note 2 Summary of significant accounting policies

### a. Basis of preparation

The consolidated financial statements of the Group have been prepared on a historical cost basis, except for derivative financial instruments and investments in marketable securities which are measured at fair value. The consolidated financial statements are presented in Pound Sterling and all values are rounded to the nearest thousand (£'000) except where otherwise indicated.

Statement of compliance:
The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) which comprise standards and interpretations issued by the International Accounting Standards Board (IASB) and International Financial Reporting Standards Interpretations Committee (IFRIC) and adopted by the European Union.

The accounting policies used in preparing the consolidated financial statements for the years ended 31 December 2019 and 2018 are set out below. These accounting policies have been consistently applied to the periods presented, except where otherwise indicated.

### b. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2019. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. All inter-company balances and transactions, income and expenses, and profits and losses resulting from intra-Group transactions are eliminated in full. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date on which such control ceases.

Non-controlling interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the income statement and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

### c. Significant accounting judgments, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

#### Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the consolidated financial statements.

**Acquisition of companies that are not business combinations**
At the acquisition date of companies and groups of assets, the Company determines whether the transaction constitutes an acquisition of a business in a business combination transaction pursuant to IFRS 3. If the acquisition does not constitute a business as defined in IFRS 3, the cost of purchase is allocated only to the identifiable assets and liabilities of the acquired Company on the basis of their relative fair values at the date of purchase and including any minority interest according to its share of the fair value of net identifiable assets at the acquisition date.

## Note 2 Summary of significant accounting policies continued

In determining whether a business was acquired, the Company evaluates whether the entity which was acquired is an integrated set of activities and assets capable of being conducted and managed for the purpose of providing a return to investors. The following criteria which indicate acquisition of a business are considered: the variety of assets acquired; the extent to which ancillary services to operate the property are provided; and the complexity of the management of the property.

**Estimates and assumptions**

The key assumptions made in the consolidated financial statements concerning uncertainties at the reporting date and the critical estimates computed by the Group for which there is a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The Group bases its assumptions and estimates on parameters available when the consolidated financial statements are prepared. However, these parameters may change due to market changes or other circumstances beyond the control of the Group. Such changes are reflected in the assumptions and estimates when they occur.

**Deferred tax assets**

Deferred tax assets are recognised for unused carry forward tax losses and temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilised. The amount of deferred tax assets that can be recognised is based upon the likely timing and level of future taxable profits together with future tax planning strategies. Additional information is provided in Note 27.

### d. Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date through profit or loss. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not re-measured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments is measured at fair value with the changes in fair value recognised in the income statement in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

### e. Business combinations involving entities under common control

The Group accounts for business combinations that include entities under common control using the acquisition method provided that the transaction has substance.

### f. Investment in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are accounted for using the equity method. Under the equity method, the investment in an associate or joint venture is carried in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate or joint venture. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

## Note 2 Summary of significant accounting policies continued

The income statement reflects the share of the results of operations of associates and joint ventures. The Group's share of changes in other comprehensive income of associates or joint venture is recognised in the statement of comprehensive income. Where there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of an associate or a joint venture is shown on the face of the income statement outside EBIT and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

The financial statements of the associate and joint ventures are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognises the loss as 'Share in result of associate and joint ventures' in the income statement.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in the income statement.

### g. Foreign currency translation

The functional currency of the Company is Pound Sterling. The consolidated financial statements are also presented in Pound Sterling.

Each entity of the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded at the exchange rates prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated into functional currency at the rates prevailing on the reporting date. Profits and losses arising from exchange differences are included in the income statement.

The assets and liabilities of the entities whose functional currency is not Pound Sterling are translated at exchange rates prevailing on the reporting date. Income and expense items are translated at the average exchange rates for the period. Equity items are translated at the historical exchange rates. Exchange differences arising on the translation are recognised in other comprehensive income and classified as a separate component of equity (foreign currency translation reserve). Such translation differences are recognised in the income statement in the period in which the entity is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Exchange differences in respect of loans, denominated in foreign currency which were granted by the Company to its subsidiaries are reflected in the foreign currency translation reserve in equity, as these loans are , in substance, a part of the Group's net investment in the foreign operation.

The following exchange rates in relation to Pound Sterling were prevailing at reporting dates:

| | As at 31 December | |
|---|---|---|
| | **2019 In Pound Sterling** | 2018 In Pound Sterling |
| Euro | **0.852** | 0.897 |
| Hungarian Forint | **0.003** | 0.003 |
| Croatian Kuna | **0.114** | 0.121 |

Percentage increase (decrease) in exchange rates during the year:

| | As at 31 December | |
|---|---|---|
| | **2019 %** | 2018 % |
| Euro | **(5.1)** | 1.1 |
| Hungarian Forint | **(7.6)** | (2.5) |
| Croatian Kuna | **(5.4)** | 2.4 |

# Note 2 Summary of significant accounting policies continued

## h. Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets are amortised using the straight-line method over their estimated useful life and assessed for impairment whenever there is an indication that the intangibles may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the assets are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense for intangible assets is recognised in the income statement.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and recognised in the income statement when the asset is derecognised.

## i. Property, plant and equipment

Property, plant and equipment are measured at cost, less accumulated depreciation and impairment losses. Depreciation is calculated using the straight-line method, over the shorter of the estimated useful life of the assets or the lease term as follows:

| | Years |
|---|---|
| Hotel buildings | **50 to 95** |
| Furniture and equipment | **2 to 25** |

The costs of maintaining property, plant and equipment are recognised in the income statement as they are incurred. Costs incurred that significantly increase the recoverable amount of the asset concerned are added to the asset's cost as an improvement and depreciated over the expected useful life of the improvement.

An item of property, plant and equipment, and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

## j. Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the asset is considered impaired and the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but not in excess of the carrying amount that would have been determined had no impairment loss been previously recognised for the asset (cash-generating unit). A reversal of an impairment loss is recognised as income immediately.

## k. Financial instruments

In July 2014, the IASB issued the final and complete version of IFRS 9 Financial Instruments which replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 mainly focuses on the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group initially adopted IFRS 9 on 1 January 2018. The provisions of IFRS were applied retrospectively without restatement of comparative data.

The adoption of IFRS 9 did not have a material effect on the consolidated financial statements. The Group continues to measure at amortised cost and fair value those financial instruments it previously held at amortised cost and fair value, respectively.

### i) Financial assets

**Initial recognition and measurement**

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. The Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortised cost, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

## Note 2 Summary of significant accounting policies continued

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a timeframe established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

**Subsequent measurement**

For purposes of subsequent measurement, financial assets are classified in two categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through profit or loss

**Financial assets at amortised cost (debt instruments)**

The Group measures financial assets at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model with the objective of holding financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost include trade receivables and loans to joint ventures.

**Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets that are debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the income statement.

This category includes derivative instruments and listed equity investments. Dividends on listed equity investments are recognised as other income in the income statement when the right of payment has been established.

**Derecognition**

A financial asset (or, where applicable, a part of a financial asset or part of a Group of similar financial assets) is primarily derecognised (i.e. removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

**Impairment of financial assets**

The adoption of IFRS 9 changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original EIR. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

## Note 2 Summary of significant accounting policies continued

The Group considers a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

### ii) Financial liabilities

**Initial recognition and measurement**

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, as measured at amortised cost (loans and borrowings and payables) or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, and derivative financial instruments.

**Subsequent measurement**

The measurement of financial liabilities depends on their classification, as described below:

**Financial liabilities at fair value through profit or loss**

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the income statement.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

**Loans and borrowings**

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as financial expenses in the income statement.

This category generally applies to interest-bearing loans and borrowings.

**Financial liability in respect of Income Units sold to private investors**

In 2010, the construction of Park Plaza Westminster Bridge London was completed and the hotel opened to paying customers. Out of 1,019 rooms, 535 rooms ('Income Units') were sold to private investors under a 999-year lease. The sales transactions are accounted for as an investment scheme in which the investors, in return for the upfront consideration paid for the Income Units, receive 999 years of net income from a specific revenue-generating portion of an asset (contractual right to a stream of future cash flows). The amounts received upfront are accounted for as a floating rate financial liability and are being recognised as income over the term of the lease (i.e. 999 years). Changes in future estimated cash flows from the Income Units are recognised in the period in which they occur. Since November 2014, the Company has bought back 31 Income Units from private investors. Upon buy-back of a unit, the financial liability relating to that unit is derecognised and any difference between the purchase price and the liability derecognised is recorded in profit and loss.

On completion of each sale of Income Units, the Company, through a wholly owned subsidiary, Marlbray Limited ('Marlbray'), entered into income swap agreements for five years with the private investors. The income swap agreements included an obligation of the investors to assign the right to receive the net income derived from the Income Units to Marlbray and an undertaking by Marlbray to pay to the investors an annual rent guarantee of approximately 6% of the purchase price for a five-year period commencing from the date of the completion of the sale. The income swap has been accounted for as a derivative. In 2015, Marlbray entered into 56 new income swap agreements for a further five years from the expiry date of the original income swap agreements on the same terms and conditions. In 2019 the company bought back one unit with a fixed rent guarantee and the swap agreement for this unit was terminated.

The entire hotel is accounted for at cost less accumulated depreciation.

The replacement costs for the Income Units are fully reimbursed by the private investors. An amount of 4% of revenues is paid by the investors on an annual basis ('FF&E reserve') and is accounted for in profit and loss. The difference between the actual depreciation cost and the FF&E reserve is a timing difference which is recorded in the statement of financial position as a receivable or liability to the investor in each respective year.

**Derecognition**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When 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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

# Note 2 Summary of significant accounting policies continued

### 1. Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

## l. Inventories

Inventories include china, food and beverages and are valued at the lower of cost and net realisable value. Cost includes purchase cost on a first in first out basis.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

## m. Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

## n. Derivative financial instruments and hedge accounting

As permitted by IFRS 9, the Group has elected to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements of IFRS 9.

The Group uses derivative financial instruments such as interest rate swaps to hedge its risks associated with interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

The effective portion of the gain or loss on the hedging instrument in a cash flow hedge is recognised directly in Other Comprehensive Income, while the ineffective portion is recognised in profit or loss. Amounts taken to OCI are transferred to the income statement when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised.

## o. Revenue from contracts with customers

The IASB issued IFRS 15 Revenue from Contracts with Customers in May 2014. IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations, and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with customers. IFRS 15 also specifies the accounting for incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted IFRS 15 using the modified retrospective method of adoption with the date of initial application of 1 January 2018. The Group elected to apply IFRS 15 only to contracts that were not completed at this date. The adoption of IFRS 15 did not have a material effect on the consolidated financial statements.

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements because it typically controls the goods or services before transferring them to the customer.

### Owned, co-owned and leased hotels

Revenues are primarily derived from hotel operations, including the rental of rooms, food and beverage sales and other services from owned,
co-owned and leased hotels operated under the Group's brand names. Revenue is recognised when rooms are occupied, food and beverages are sold and services are performed.

### Management fees

Earned from hotels managed by the Group, under long-term contracts with the hotel owner. Management fees include a base fee, which is generally a percentage of hotel revenue, and an incentive fee, which is based on the hotel's profitability. Revenue is recognised when earned and realised or realisable under the terms of the agreement.

## Note 2 Summary of significant accounting policies continued

#### Franchise fees

Received in connection with a licence of the Group's brand names, under long-term contracts with the hotel owner. The Group charges franchise fees as a percentage of hotel revenue. Revenue is recognised when earned and realised or realisable under the terms of the agreement.

#### Marketing fees

Received in connection with the sales and marketing services offered by the Group, under long-term contracts with the hotel owner. The Group charges marketing fees as a percentage of hotel revenue. Revenue is recognised when earned and realised or realisable under the terms of the agreement.

#### Customer loyalty programme

The Group participates in the Radisson Rewards™ customer loyalty programme to provide customers with incentives to buy room nights. This customer loyalty programme is owned and operated by the Radisson Hotel Group and therefore the entity retains no obligations in respect of the award credits other than to pay the programme operator for the granted award credits. The customers are entitled to utilise the awards as soon as they are granted.

The Group purchases these award credits from Radisson Hotel Group and issues these to its customers in order to enhance its customer relationships rather than to earn a margin from the sale of these award credits. The Group concluded that it is acting as principal in this transaction and, in substance, is earning revenue from supplying these awards to its customers. The Group measures these revenues at fair value and recognises these gross from the costs of participating in the programme.

#### Contract balances

**Trade receivables**

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e. only the passage of time is required before payment of the consideration is due).

**Contract liabilities**

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability (advance payments received) is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

### p. Key performance indicators

#### EBITDAR

Earnings before interest, tax, depreciation, amortisation, impairment loss and rental expenses, share of associate and exceptional items presented as other income and expense (EBITDAR) correspond to revenue less cost of revenues (operating expenses). EBITDAR, together with EBITDA, is used as a key performance indicator.

#### EBITDA

Earnings before interest, tax, depreciation and amortisation, impairment loss, exceptional items presented as other income and expense (EBITDA) correspond to gross profit after the operating costs of holding leased hotels.

#### EBIT

Earnings before interest, tax and exceptional items presented as other income and expense (EBIT) correspond to gross operating profit after the operating costs of holding both leased and owned assets.

### q. Leases

As described in section x below regarding the initial adoption of IFRS 16, Leases, the Group elected to apply the provisions of IFRS 16 using the modified retrospective method (without restatement of comparative data).

The accounting policy for leases applied effective from 1 January 2019 is as follows:

The Group accounts for a contract as a lease when the contract terms convey the right to convey the right to control the use of an identified asset for a period of time in exchange for consideration.

#### The Group as lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

#### Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

| | Years |
|---|---|
| Land | **50 to 200** |
| Hotel buildings | **5 to 95** |
| Offices and storage | **1 to 12** |
| Furniture and equipment | **2 to 25** |

## Note 2 Summary of significant accounting policies continued

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment. Refer to the accounting policies in section (j) Impairment of non-financial assets.

**Lease liabilities**
At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including insubstance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as rent expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the lease payments (e.g. changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Group's lease liabilities are included in Other financial liabilities (see Note 18).

**Variable lease payments that depend on an index:**
On the commencement date, the Company uses the index rate prevailing on the commencement date to calculate the future lease payments.

For leases in which the Company is the lessee, the aggregate changes in future lease payments resulting from a change in the index are discounted (without a change in the discount rate applicable to the lease liability) and recorded as an adjustment of the lease liability and the right-of-use asset, only when there is a change in the cash flows resulting from the change in the index (that is, when the adjustment to the lease payments takes effect).

**Variable lease payments:**
Variable lease payments that do not depend on an index or interest rate but are based on performance or usage are recognized as an expense as incurred when the Company is the lessee, and are recognized as income as earned when the Company is the lessor.

**Lease extension and termination options:**
A non-cancelable lease term includes both the periods covered by an option to extend the lease when it is reasonably certain that the extension option will be exercised and the periods covered by a lease termination option when it is reasonably certain that the termination option will not be exercised.

In the event of any change in the expected exercise of the lease extension option or in the expected non-exercise of the lease termination option, the Company remeasures the lease liability based on the revised lease term using a revised discount rate as of the date of the change in expectations. The total change is recognized in the carrying amount of the right-of-use asset until it is reduced to zero, and any further reductions are recognized in profit or loss.

**Lease modifications:**
If a lease modification does not reduce the scope of the lease and does not result in a separate lease, the Company remeasures the lease liability based on the modified lease terms using a revised discount rate as of the modification date and records the change in the lease liability as an adjustment to the right-of-use asset.

If a lease modification reduces the scope of the lease, the Company recognizes a gain or loss arising from the partial or full reduction of the carrying amount of the right-of-use asset and the lease liability. The Company subsequently remeasures the carrying amount of the lease liability according to the revised lease terms, at the revised discount rate as of the modification date and records the change in the lease liability as an adjustment to the right-of-use asset

**Short-term leases and leases of low-value assets**
The Group applies the short-term lease recognition exemption to its short-term leases of furniture and equipment (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

### r. Employee benefits

**Share-based payments**
The Board has adopted a share option plan, under which employees and Directors of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (equity-settled transactions).

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by using an appropriate pricing model, further details of which are given in Note 13.

## Note 2 Summary of significant accounting policies continued

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognised at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting, irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognised is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

#### Pension

The Group has a defined contribution pension plan where the employer is liable only for the employer's part of the contribution towards an individual's pension plan.

The Group will have no legal obligation to pay further contributions. The contributions in the defined contribution plan are recognised as an expense and no additional provision is required in the consolidated financial statements.

### s. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the income statement, net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

### t. Borrowing costs for qualifying assets

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

### u. Taxation

#### Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

#### Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or from an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and jointly controlled entities, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities and changes in them relating to items recognised directly in equity or other comprehensive income are recognised in equity or other comprehensive income and not in the income statement.

## Note 2 Summary of significant accounting policies continued

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and jointly controlled entities, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### v. Treasury shares

Own equity shares held by the Group are recognised at cost and presented as a deduction from equity. Any purchase, sale, issue or cancellation of treasury shares is recognised directly in equity.

### w. Earnings (loss) per share

Basic earnings (loss) per share amounts are calculated by dividing the net profit (loss) for the year attributable to shareholders of the parent Company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings (loss) per share amounts are calculated by dividing the net profit (loss) for the year by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

### x. Changes in accounting policies and disclosures

The Group applied IFRS 16 Leases for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard is described below. Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

#### IFRS 16 (Modified retrospective method)

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets'). The Company elected to apply a single discount rate to a portfolio of leases with reasonably similar characteristics. The effect of adopting IFRS 16 is as follows:

## Note 2 Summary of significant accounting policies continued

Impact on the consolidated statement of financial position (increase/decrease) as at 1 January 2019:

| | According to the previous accounting policy £'000 | The change £'000 | As presented according to IFRS 16 £'000 |
|---|---|---|---|
| **Non-current assets:** | | | |
| Prepaid leasehold payments included in other non-current financial assets | 305 | (305) | – |
| Property, plants and equipment | 1,270,785 | (182,972) | 1,087,813 |
| Right-of-use assets | – | 221,971 | 221,971 |
| **Current liabilities:** | | | |
| Current maturity of lease liabilities included in other payables and accruals | – | (3,671) | (3,671) |
| Accrued rent included in other payables and accruals | (1,858) | 683 | (1,175) |
| **Non-current liabilities:** | | | |
| Lease liability included in other financial liabilities | (187,701) | (35,706) | (223,407) |

Impact on the consolidated income statement (increase/decrease) as at 31 December 2019:

| | According to the previous accounting policy £'000 | The change £'000 | As presented according to IFRS 16 £'000 |
|---|---|---|---|
| Operating expenses | (233,295) | 271 | (233,024) |
| Rent expenses | (6,822) | 5,048 | (1,774) |
| EBITDA | 117,575 | 5,319 | 122,894 |
| Depreciation and amortisation | (38,032) | (3,717) | (41,749) |
| Interest on lease liabilities | (7,114) | (2,032) | (9,146) |
| Profit before tax | 38,907 | (430) | 38,477 |

## Note 2 Summary of significant accounting policies continued

### Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items including land, buildings and equipment. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Finance leases were capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognised as financial expenses) and reduction of the lease liability. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in the income statement on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under Prepayments and Other payables, respectively.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases for which it is the lessee, except for short-term leases and leases of low-value assets.

For leases previously classified as operating leases, the Group recognised lease liabilities for lease payments with corresponding right of-use assets representing the right to use the underlying assets. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application, which ranged between 2.2% and 3.6%

For leases previously classified as finance leases, the Group reclassified the outstanding balance of the leased assets from Property, plant and equipment to Right-of-use assets. The carrying amount of the finance lease liability remained unchanged.

In accordance with the modified retrospective method of adoption, the Group applied IFRS 16 at the date of initial application and, accordingly, the comparative information in these consolidated financial statements has not been restated.

See section q earlier in note 2 for the new accounting policy of the Group as of 1 January 2019 upon adoption of IFRS 16.

### IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- whether an entity considers uncertain tax treatments separately;
- the assumptions an entity makes about the examination of tax treatments by taxation authorities;
- how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- how an entity considers changes in facts and circumstances.

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty needs to be followed. The Group applies significant judgment in identifying uncertainties over income tax treatments. Since the Group operates in a complex multinational environment, it assessed whether the Interpretation had an impact on its consolidated financial statements. The Interpretation did not have an impact on the consolidated financial statements of the Group.

## y. Standards issued but not yet applied

Standards issued but not yet effective, or subject to adoption by the European Union, up to the date of issuance of the consolidated financial statements are listed below. This listing of standards issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become mandatory.

The following standards have been issued by the IASB and are not yet effective or are subject to adoption by the European Union:

### Amendments to IFRS 3: Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

### Amendments to IFRS 9, IFRS 7 and IAS 39:

In September 2019, the IASB published an amendment to IFRS 9, Financial Instruments, IFRS 7, Financial Instruments: Disclosures and IAS 39, Financial Instruments: Recognition and Measurement ('the Amendment').

In view of global regulatory changes, numerous countries have considered introducing a reform in the benchmark Interbank Offered Rates ('IBORs') (LIBOR, the London Interbank Offered Rate, being one of the most common examples) and switching to a risk-free interest rate alternative ('RFRs') which extensively rely on data of specific transactions. The IBOR reform leads to uncertainty regarding the dates and amounts to be attributed to future cash flows relating to both hedging instruments and hedged items that rely on existing IBORs. In order to resolve this uncertainty, the IASB issued the Amendment to offer transitional reliefs for entities that apply IBOR-based hedge accounting.

The Amendment is to be applied retrospectively for annual periods beginning on or after 1 January 2020. Early adoption is permitted. The adoption of the Amendment is not expected to have a significant effect on the Group's consolidated financial statements.

## Note 3 Business combination

### Acquisition of joint venture interest in London

In March 2018, the Group purchased from its joint venture partner the remaining 50% interest in a joint venture company, Aspirations Limited ('Aspirations'), for a consideration of £35 million. Aspirations owns a property located in Hoxton, London on which it plans to re-develop and construct a mixed-use scheme consisting of the 343-room art'otel london hoxton, office and commercial space and ancillaries. As this acquisition resulted in the Group obtaining control of Aspirations, the Group re-measured its previously held 50% equity interest after the acquisition date. As a result, the fair value of the entire site (100%) was valued at £70 million and a gain of £20.3 million was recognised in other income.

The fair values of identifiable assets and liabilities of Aspirations at the date of acquisition were as follows:

| | Fair Value £'000 |
|---|---|
| Property, plant and equipment | 69,512 |
| Trade receivables | 41 |
| Cash and cash equivalents | 438 |
| | 69,991 |
| Trade payables | (17) |
| | (17) |
| Net assets | 69,974 |
| Total consideration | 34,987 |
| Fair value of previously held interest (50%) | 34,987 |
| | 69,974 |
| Carrying amount of previously held interest | (14,707) |
| Fair value previously held interest | (34,987) |
| Gain on re-measurement of previously held interest | 20,280 |
| Cash flow on acquisition | |
| Cash acquired with the subsidiary | 438 |
| Cash paid | (34,987) |
| Net cash outflow | (34,549) |

From the date of acquisition until the end of the year 2018, the revenues and profit before tax of Aspirations were immaterial.

If the acquisition had taken place as of 1 January 2018, the effect on revenues and profit before tax of the Group would have been immaterial.

## Note 4 Intangible assets

| | Park Plaza® Hotels & Resorts management rights (a)[1] £'000 | Park Plaza® Hotels & Resorts franchise rights (a)[2] £'000 | art'otel® franchise rights (b) £'000 | Other intangible assets (c) £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| Balance as at 1 January 2018 | 21,238 | 21,712 | 2,638 | 2,212 | 47,800 |
| Adjustment for exchange rate differences | 237 | 242 | 29 | 68 | 576 |
| Reclassification | – | – | – | 944 | 944 |
| Balance as at 31 December 2018 | 21,475 | 21,954 | 2,667 | 3,224 | 49,320 |
| **Accumulated amortisation:** | | | | | |
| Balance as at 1 January 2018 | 11,078 | 11,472 | 1,449 | 231 | 24,230 |
| Amortisation | 1,068 | 1,076 | 132 | 186 | 2,462 |
| Adjustment for exchange rate differences | 136 | 142 | 18 | 21 | 317 |
| Reclassification | – | – | – | 848 | 848 |
| Balance as at 31 December 2018 | 12,282 | 12,690 | 1,599 | 1,286 | 27,857 |
| **Net book value as at 31 December 2018** | 9,193 | 9,264 | 1,068 | 1,938 | 21,463 |
| | | | | | |
| **Cost:** | | | | | |
| Balance as at 1 January 2019 | **21,475** | **21,954** | **2,667** | **3,224** | **49,320** |
| Adjustment for exchange rate differences | **(1,084)** | **(1,108)** | **(135)** | **(180)** | **(2,507)** |
| Additions | **–** | **–** | **–** | **84** | **84** |
| Balance as at 31 December 2019 | **20,391** | **20,846** | **2,532** | **3,128** | **46,897** |
| **Accumulated amortisation:** | | | | | |
| Balance as at 1 January 2019 | **12,282** | **12,690** | **1,599** | **1,286** | **27,857** |
| Amortisation | **1,056** | **1,063** | **130** | **246** | **2,495** |
| Adjustment for exchange rate differences | **(649)** | **(669)** | **(84)** | **(89)** | **(1,491)** |
| Balance as at 31 December 2019 | **12,689** | **13,084** | **1,645** | **1,443** | **28,861** |
| **Net book value as at 31 December 2019** | **7,702** | **7,762** | **887** | **1,685** | **18,036** |

### a. Acquisition of Park Plaza® Hotels & Resorts management and franchise rights and lease rights

(1) Management rights – rights held by the Group relating to the management of Park Plaza® Hotels & Resorts in Europe, the Middle East and Africa. The management rights are included in the consolidated financial statements at their fair value as at the date of acquisition and are being amortised over a period of 20 years, based on the terms of the existing contracts and management estimation of their useful life. The remaining amortisation period is 8.5 years.

(2) Franchise rights relating to the brand 'Park Plaza® Hotels & Resorts' are included in the consolidated financial statements at their fair value as at the date of acquisition and are being amortised over 20 years, based on management's estimation of their useful life. The remaining amortisation period is 8.5 years.

### b. Acquisition of art'otel® rights

In 2007, the Group acquired the worldwide rights to use the art'otel® brand name for an unlimited period of time. The rights are being amortised over 20 years based on management's estimation of their useful life. The remaining amortisation period is 8.5 years.

### c. Other intangible assets

These include the brand name and internal domain obtained in the acquisition of Arena. The rights are being amortised over 20 years based on management's estimation of their useful life.

### d. Impairment

In 2019, there were no indicators of impairment.

## Note 5 Property, plant and equipment

| | Land £'000 | Hotel buildings £'000 | Property & assets under construction £'000 | Income Units sold to private investors* £'000 | Furniture, fixtures and equipment £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **Cost:** | | | | | | |
| Balance as at 1 January 2018 | 320,324 | 681,719 | 21,165 | 137,743 | 174,544 | 1,335,495 |
| Additions during the year | 1,151 | 33,652 | 10,178 | 1,330 | 21,031 | 67,342 |
| Disposal (see Note 25) | – | (604) | 27 | – | (3,353) | (3,930) |
| Acquisition of subsidiary | 69,512 | – | – | – | – | 69,512 |
| Buy-back of Income Units sold to private investors | 130 | 926 | – | (1,104) | 48 | – |
| Reclassification | 1,203 | 2,521 | (15,532) | – | 12,085 | 277 |
| Adjustment for exchange rate differences | 3,133 | 4,506 | 119 | – | 752 | 8,510 |
| Balance as at 31 December 2018 | 395,453 | 722,720 | 15,957 | 137,969 | 205,107 | 1,477,206 |
| **Accumulated depreciation and impairment:** | | | | | | |
| Balance as at 1 January 2018 | 10,421 | 61,238 | – | 16,526 | 88,868 | 177,053 |
| Provision for depreciation | 627 | 13,174 | – | 2,355 | 17,277 | 33,433 |
| Disposal (see Note 25) | – | (577) | – | – | (3,353) | (3,930) |
| Reclassifications | – | (848) | – | – | – | (848) |
| Buy-back of Income Units sold to private investors | – | 49 | – | (81) | 32 | – |
| Adjustment for exchange rate differences | 45 | 419 | – | – | 249 | 713 |
| Balance as at 31 December 2018 | 11, 093 | 73,455 | – | 18,800 | 103,073 | 206,421 |
| **Net book value as at 31 December 2018** | 384,360 | 649,265 | 15,957 | 119,169 | 102,034 | 1,270,785 |
| **Cost:** | | | | | | |
| Balance as at 31 December 2018 | **395,453** | **722,720** | **15,957** | **137,969** | **205,107** | **1,477,206** |
| IFRS 16 adjustment | **(85,731)** | **(83,802)** | **–** | **–** | **(23,873)** | **(193,406)** |
| Balance as at 1 January 2019 | **309,722** | **638,918** | **15,957** | **137,969** | **181,234** | **1,283,800** |
| Additions during the year | **15,955** | **32,047** | **5,739** | **745** | **30,514** | **85,000** |
| Disposal | **(44)** | **(225)** | **–** | **–** | **(1,845)** | **(2,114)** |
| Buy-back of Income Units sold to private investors | **109** | **775** | **–** | **(925)** | **41** | **–** |
| Reclassification | **–** | **6,959** | **(6,687)** | **–** | **(272)** | **–** |
| Adjustment for exchange rate differences | **(9,999)** | **(16,802)** | **(599)** | **–** | **(3,451)** | **(30,851)** |
| Balance as at 31 December 2019 | **315,743** | **661,672** | **14,410** | **137,789** | **206,221** | **1,335,835** |
| **Accumulated depreciation and impairment:** | | | | | | |
| Balance as at 31 December 2018 | **11,093** | **73,455** | **–** | **18,800** | **103,073** | **206,421** |
| IFRS 16 adjustment | **(3,900)** | **(1,664)** | **–** | **–** | **(4,870)** | **(10,434)** |
| Balance as at 1 January 2019 | **7,193** | **71,791** | **–** | **18,800** | **98,203** | **195,987** |
| Provision for depreciation | **324** | **12,743** | **–** | **2,546** | **15,692** | **31,305** |
| Disposal | **–** | **(124)** | **–** | **–** | **(1,800)** | **(1,924)** |
| Buy-back of Income Units sold to private investors | **–** | **41** | **–** | **(68)** | **27** | **–** |
| Adjustment for exchange rate differences | **(156)** | **(1,745)** | **–** | **–** | **(1,293)** | **(3,194)** |
| Balance as at 31 December 2019 | **7,361** | **82,706** | **–** | **21,278** | **110,829** | **222,174** |
| **Net book value as at 31 December 2019** | **308,382** | **578,966** | **14,410** | **116,511** | **95,392** | **1,113,661** |

* This includes 508 rooms ('Income Units') (2018: 512) in Park Plaza Westminster Bridge London, for which the cash flows, derived from the net income generated by these Income Units, were sold to private investors (see Note 2(k)). The proceeds from the purchases have been accounted for as a variable rate financial liability (see Note 17). See Note 7 for information regarding income swap agreements in respect of certain of these Income Units.

a. **For information regarding liens, see Note 14.**

b. **Land acquisition**
In November 2019, the Group acquired the freehold interest in a site located in London SE1 (the 'Site') with a view to developing the Site into a hotel, subject to planning permission being obtained. The Site was acquired from a third party seller at a total investment of £12 million (excluding taxes and associated costs) funded from the Group's existing cash.

# Note 6 Investment in joint ventures and subsidiaries with significant non-controlling interests

## a. Investment in joint ventures

| | As at 31 December | |
|---|---|---|
| | **2019 £'000** | 2018 £'000 |
| Loans to joint ventures* | **11,720** | 4,134 |
| Share of net assets under equity method | **6,431** | 212 |
| Investment in joint ventures | **18,151** | 4,346 |

* The loans to joint ventures amount include a Euro loan bearing an interest of LIBOR +2.5% per annum which repayment is due on 7 June 2023, and a US$ loan bearing 8% interest.

The share in net profit amounts to £178 thousand (2018: £144 thousand).

## b. Joint venture agreement in New York City

On 13 March 2019 the Company, through a wholly-owned subsidiary, entered into a joint venture agreement with Largo 542 West 29th Street Partners LLC, an affiliate of Largo ('Largo'), a New York-based real estate development and investment firm, to acquire, through W29 Owner LLC (the 'Property Owner'), properties located at 538, 540 and 542 West 29th Street, New York, USA (together the 'Property'). PPHE has a 50% interest in the Property Owner.

The consideration paid for the acquisition of the Property was US$42.6 million (£33.3 million) plus associated acquisition and financing costs of US$2.9 million (£2.3 million) (the 'Property Acquisition'). The Property Acquisition was partly funded with a US$20.7 million (£16.2 million) loan (the 'Loan') from Bank Hapoalim B.M. (the 'Lender'). The Loan is secured by a first priority mortgage encumbering the Property. In addition, Largo and PPHE have delivered certain customary guarantees in favour of the Lender.

The total cash contributed by PPHE and Largo to the joint venture as of the acquisition date was US$17 million (£13.3 million) and US$7.8 million (£6.1 million), respectively. The extra cash contribution by PPHE of US$9.2 million (£7.2 million) is considered as a member loan which bears 8% interest (the 'member loan').

Under the terms of the joint venture agreement, there was an intention to negotiate a construction agreement between the Property Owner and Largo as the contractor, provided certain conditions were met prior to the end of February 2020. However, in January 2020 the Company, through a wholly-owned subsidiary, has acquired from Largo its 50% interest in the Property Owner, for a total consideration of US$3.3 million plus associated acquisition costs. As a result, the Company now owns 100% of the Property and the associated joint venture arrangements have been terminated. The acquisition was funded from the Company's existing cash resources.

As of 31 December 2019, the Group's investment in the joint venture, including the outstanding member loan, amounts to US$18.1 million (£13.7 million) which investment is accounted for using the equity method.

## c. Summarized financial information of subsidiary with material non-controlling interests

In the last quarter of 2019 the Company purchased 26,247 shares of Arena for a consideration of HRK 9.9 million (£1.1 million). Furthermore, during 2019 Arena purchased 43,747 shares for a consideration of HRK 16.3 million (£1.9 million). The difference between the adjustment of the non-controlling interests and the net consideration paid of approximately £2 thousands was recorded in retained earnings. As a result of those transactions the Group's share in Arena increased to 52.9% (2018: 52%)

The amount of profit and comprehensive income allocated to the non-controlling interests in 2019 amounts to £8,667 thousand (2018: £5,380 thousand) and £2,621 thousands (2018: £7,457 thousand) respectively.

In July 2019 Arena distributed a divided in the amount of HRK 5 per share, totalling in HRK 25,643 thousands (£3,027 thousands). The dividend that was paid to the non-controlling interest was HRK 12,316 thousands (£1,454 thousands).

Below is selected financial information relating to Arena, as of 31 December 2019 and 2018, and for the years ended December 2019 and 2018.

| | **2019 £'000** | 2018 £'000 |
|---|---|---|
| Non-current assets | **288,081** | 253,740 |
| Current assets | **87,054** | 101,067 |
| Non-current liabilities | **135,158** | 117,705 |
| Current liabilities | **19,762** | 18,026 |
| Revenue | **91,844** | 90,527 |
| EBITDA | **27,098** | 25,648 |
| Profit for the period | **18,130** | 14,264 |
| Total comprehensive income | **12,084** | 16,341 |

# Note 7 Other non-current assets

## a. Non-current financial assets

| | As at 31 December | |
|---|---|---|
| | **2019 £'000** | 2018 £'000 |
| Income swap in respect of Income Units sold to private investors[1] | **310** | 561 |
| Income Units in Park Plaza County Hall London[2] | **17,600** | 16,677 |
| Rent security deposits[3] | **351** | 370 |
| Restricted deposits | **–** | 10 |
| Prepaid leasehold payments[4] | **–** | 305 |
| Other non-current assets | **97** | 104 |
| | **18,358** | 18,027 |

1 Relates to income swap agreements, whereby the Group has the right to receive the net income derived from certain Income Units sold to private investors at Park Plaza Westminster Bridge London and an undertaking to guarantee a fixed return of approximately 6% on the original purchase price for a period of five years. These income swaps are measured at discounted expected cash flows with the following variables:
a. The present value of the net operating income of the hotel rooms is calculated using a discount rate of 7%.
b. The present value of the guaranteed return is calculated using a discount rate of 5%.
c. The income of the hotel is estimated to grow by 2% each year.

2 On 14 July 2017, the Group acquired an ownership interest in Park Plaza County Hall London through its purchase of 44 aparthotel units and the associated shares in the management company of the hotel, South Bank Hotel Management Company Limited. The purchase price was £16.0 million. In October 2017 an additional two units were purchased for £0.7 million. Upon initial recognition, the investment was designated in the consolidated financial statements at fair value through profit and loss. In return for the consideration paid, the Company receives 999 years of net income from specific revenue-generating units of the hotel (contractual right to a stream of future cash flows). This investment is managed and its performance is evaluated by Group management on a fair value basis in accordance with the Group investment strategy. As the cash flows from this investment are not solely payments of principal and interest, under IFRS 9 the investment is classified and measured at fair value through profit or loss. The fair value of the income units as of the balance sheet date was £17.6 million based on an independent valuation prepared by Savills using a cap rate of 6%.

3 Relates to leases described in Note 14 C (ii)2.

4 Reclassed to Right to Use Asset according to IFRS 16 Note 19.

# Note 8 Trade receivables

## a. Composition:

| | As at 31 December | |
|---|---|---|
| | **2019 £'000** | 2018 £'000 |
| Trade receivables | **13,635** | 15,688 |
| Less – allowance for doubtful debts | **(877)** | (364) |
| | **12,758** | 15,324 |

Trade receivables are non-interest bearing. The Group's policy provides an average of 30 days' payment terms.

## b. Movements in the allowance for doubtful accounts were as follows:

| | £'000 |
|---|---|
| As at 1 January 2018 | (758) |
| Write-off | 322 |
| Collections | 81 |
| Exchange rate differences | (9) |
| As at 31 December 2018 | (364) |
| Write-off | 290 |
| Additions | (826) |
| Exchange rate differences | 23 |
| **As at 31 December 2019** | (877) |

## Note 8 Trade receivables continued

### c. As at 31 December, the ageing analysis of trade receivables is as follows:

| | | | Past due | | | |
|---|---|---|---|---|---|---|
| **2019** | Total £'000 | Not past due £'000 | < 30 days £'000 | 31 to 60 days £'000 | 61 to 90 days £'000 | > 90 days £'000 |
| Trade Receivables | **13,635** | **4,992** | **5,888** | **1,450** | **267** | **1,038** |
| Allowance for doubtful debts | **(877)** | | | | | **(877)** |
| | **12,758** | **4,992** | **5,888** | **1,450** | **267** | **161** |

| | | | Past due | | | |
|---|---|---|---|---|---|---|
| 2018 | Total £'000 | Not past due £'000 | < 30 days £'000 | 31 to 60 days £'000 | 61 to 90 days £'000 | > 90 days £'000 |
| Trade Receivables | 15,688 | 5,709 | 6,864 | 1,653 | 437 | 1,025 |
| Allowance for doubtful debts | (364) | – | – | – | – | (364) |
| | 15,324 | 5,709 | 6,864 | 1,653 | 437 | 661 |

## Note 9 Other receivables and prepayments

| | As at 31 December | |
|---|---|---|
| | **2019 £'000** | 2018 £'000 |
| Prepaid expenses | **7,396** | 7,672 |
| VAT | **6,310** | 2,010 |
| Related parties* | **295** | 1,605 |
| Others | **1,064** | 729 |
| | **15,065** | 12,016 |

* The amount owed by related parties bears no interest; see Note 30.

## Note 10 Other current financial assets

| | As at 31 December | |
|---|---|---|
| | **2019 £'000** | 2018 £'000 |
| Investment in marketable securities* | **5,221** | 4,449 |

* Classified as held for trading

## Note 11 Cash and cash equivalents

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

## Note 12 Equity

### a. Share capital

The authorised share capital of the Company is represented by an unlimited number of ordinary shares with no par value.

As at 31 December 2019, the number of ordinary shares issued was 44,347,410 (2018: 44,225,706), 1,888,070 of which were held as treasury shares (2018: 1,888,070).

The Company's shares are admitted to the Premium Listing segment of the Official List of the UK Listing Authority and to trading on the Main Market for listed securities of the London Stock Exchange.

### b. Treasury shares

On 29 September 2009, the Company purchased 862,000 of its ordinary shares at a price of 111 pence per share. On 26 October 2011, the Company purchased 800,000 of its ordinary shares at a price of 227 pence per share. On 29 August 2012, the Company purchased 200,000 of its ordinary shares at a price of 210 pence per share. On 18 October 2017, the Company purchased 41,070 of its ordinary shares at a price of 1,041 pence per share. On 27 February 2018, the Company issued 15,000 of its ordinary shares from its treasury account at a price of 1,070 pence per share. The total number of treasury shares is 1,888,070.

### c. Nature and purpose of reserves

#### Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations.

#### Hedging reserve

This reserve comprises the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.

## Note 13 Share-based payments

During 2007, the Company established a share option plan (the 'Plan') with the following principal terms:

a. The Plan has two types of options: Option A and Option B. The exercise price of both options will not be less than the closing price of a share on the dealing day immediately preceding the grant date (as published in the Daily Official List of the London Stock Exchange). Option A vests over a period of three years from the grant date and Option B vests at the end of three years from the grant date. Unexercised options expire ten years after the grant date. The Plan does not include any performance conditions.

b. The Group's Remuneration Committee met in June 2018 to consider option packages of senior employees to ensure that they are properly incentivised in the future. The Remuneration Committee made its recommendation to the Board and the Board agreed to grant a total of 215,500 options to senior management at an exercise price of 1,430 pence (being the closing mid-market price on 28 June 2018). The options were granted under the terms of the Company's Executive Share Option Plan. The options vest in three equal tranches on each of the first, second and third anniversaries of the date of grant, subject to the rules of the Plan.

   The following lists the inputs to the binomial model used in 2018 for the fair value measurement of the granted share options:

| | |
|---|---|
| Dividend yield | 1.7% |
| Expected volatility of the share prices | 20.4% |
| Risk-free interest rate | 0.99% |
| Expected life of share options | 4.4 years |
| Weighted average share price at the grant date | 1,430.0 pence |
| Fair value per option | 208.0 pence |

   The expected life of the share options is based on historical data, current expectations and empirical data. It is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility of similar listed companies over a period similar to the life of the options is indicative of future trends, which may not be reflective of the actual outcome.

c. At any time, the total number of shares issued and/or available for grant (in a ten-year period) under the Plan or under any other employee share scheme which the Company may establish in the future may not exceed 5% of the Company's issued share capital at that time. For the purpose of this calculation, any option granted under the Plan immediately following admission to AIM in July 2007 is disregarded.

   The expense arising from equity-settled share-based payment transactions during 2019 was £199 thousand (2018: £183 thousand). Total exercisable options at 31 December 2019 amounted to 268,624 (2018: 240,334).

### Movements during the year

The following table illustrates the number (No.) and weighted average exercise prices (EP) of, and movements in, share options during 2018 and 2019:

| | No. of options A | No. of options B | EP |
|---|---|---|---|
| Outstanding as at 1 January 2018 | 307,000 | – | 5.31 |
| Options forfeited during the year | – | – | – |
| Options exercised in the year* | – | – | – |
| Options granted during the year | 215,500 | – | £14.30 |
| Outstanding as at 31 December 2018 | 522,500 | – | £9.02 |
| Options forfeited during the year | – | – | – |
| Options exercised in the year* | (110,210) | – | £6.90 |
| Options granted during the year | – | – | – |
| **Outstanding as at 31 December 2019** | 412,290 | – | £9.58 |

* Part of the exercise was cashless.

The weighted average remaining contractual life for the share options outstanding as at 31 December 2019 is seven years (2018: eight years).

## Note 14 Pledges, contingent liabilities and commitments

### a. Pledges, collateral and securities

Substantially all of the Group's assets and all of the rights connected or related to the ownership of the assets (including shares of subsidiaries and restricted deposits) are pledged in favour of banks and financial institutions as security for loans received. For most of the loans, specific assets are pledged as the sole security provided.

### b. Restricted cash

Under certain facility agreements, funds need to be held in restricted deposit accounts in order to pay the debt service for a subsequent period. The total deposits held amount to £5.4 million and are presented as restricted in the financial statements.

## Note 14 Pledges, contingent liabilities and commitments continued

### c. Commitments

#### (i) Management and franchise agreements

1. The Group entered into a Territorial Licence Agreement (the 'Master Agreement') with Radisson Hotel Group ('Radisson'). Under the Master Agreement, the Group, amongst other rights, is granted an exclusive licence to use the brand 'Park Plaza® Hotels & Resorts' in 56 territories throughout Europe, the Middle East and Africa in perpetuity (the 'Territory').

   The Master Agreement also allows the Group to use, and license others to use, the Radisson systems within the Territory, which right includes the right to utilise the Radisson systems' international marketing and reservations facilities and to receive other promotional assistance. The Group pays Radisson a fee based on a percentage of the hotels' gross room revenue.

2. Within the terms of the management agreements, the hotels were granted by the Group a licence allowing them to use, throughout the term of the management agreements, the 'Park Plaza® Hotels & Resorts' and 'art'otel®' brand names.

#### (ii) Construction contract commitment

As at 31 December 2019, the Company had no capital commitments.

#### (iii) Guarantees

1. In 2015, Marlbray entered into 56 income swap agreements for a further five years from the expiry date of the original income swap agreements for the respective units on the same terms and conditions (see Note 7). The Company guarantees 48 of these agreements. The remaining future obligation as at 31 December 2019 amounted to £2.5 million.

2. In January 2013, the Company sold to Red Sea Hotels Limited ('Red Sea') all of the Company's shares in its subsidiary, Leno Finance Limited ('Leno'), the company through which the Company owned an interest in the site in Pattaya, Thailand (the 'Project'), and certain related loans and receivables, for a total consideration of Thai Baht 600 million.

   Under the terms of the United Overseas Bank (UOB) credit facilities received for the construction of the Project, the Company is obliged to provide certain financial support in the event of a cost overrun or funding shortfall in relation to the Project, to satisfy the payment of unpaid interest or fees until completion of the Project and, in certain circumstances, may be required to purchase serviced apartments after completion of the Project for a maximum of Thai Baht 600 million to fund any amounts that are outstanding under the UOB credit facilities. In addition, the Company undertook to take all necessary acts to ensure the completion of the Project as planned. Red Sea has agreed to indemnify the Company in respect of these continuing obligations (except for the obligation to purchase serviced apartments after completion where there is a continuing event of default) and as security Red Sea has pledged the shares held by it in Bali Hai Company Limited (the Thai subsidiary of Leno that owns and develops the Project) ('Bali Hai') and certain affiliated Thai companies.

   The sponsor support deed with UOB provides that the Company shall maintain a net gearing ratio (the ratio of (i) any interest-bearing indebtedness owed to financial institutions or under financial debt instruments of the Company less any cash balances or cash equivalent instruments maintained by the Company to (ii) its tangible net worth (total tangible assets less all external liabilities in respect of money borrowed or raised by the Company) not exceeding 3:1. As at 31 December 2019, the Company was in compliance with the aforementioned covenants.

   The Project encountered planning issues and as a result construction has been halted and the Company has been advised that the planning issues are unlikely to be resolved and that it is probable that Bali Hai will go into liquidation if such an application is filed by its creditors. UOB has secured judgment against Bali Hai for repayment of principal and interest. Recently the Project has been put out for sale on public auction and UOB, who has a first mortgage over the Project, will be entitled to receive the proceeds of such a sale and apply to liquidate Bali Hai for any shortfall.

   UOB has made demand of the Company for certain interest it contends is outstanding. The Company has responded to UOB and rejected its demands. The Company is working closely with Red Sea to refute UOB's demands (in respect of any liability for which the Company would benefit from the Red Sea indemnity).

   As before, the Company continues to believe that, given the Red Sea indemnity in favour of the Company, it is not probable that any material outflow of resources embodying economic benefits will be required to settle the obligations of the Company under the sponsor support deed.

3. The Company guarantees principal and interest under the €10.7 million (£9.3 million) facility granted by Deutsche Hypothekenbank AG to ABM Hotel Holding B.V. and PPBK Hotel Holding B.V. (formerly known as ABK Hotel Holding B.V.) The Company has entered into a counter-guarantee with Arena effective as of 1 January 2018 whereby Arena guarantees the Company's obligations under the Company's guarantee.

4. The Company guarantees 50% of the loan agreement of €38.0 million (£33.3 million) granted by Deutsche Hypothekenbank AG to ACO Hotel Holding B.V. and ABK Hotel Holding B.V. The Company has entered into a counter-guarantee with Arena effective as of 1 January 2018 whereby Arena guarantees the Company's obligations under the Company's guarantee.

5. In March 2019, as part of the joint venture arrangements in relation to art'otel new york, the Company granted certain guarantees to Bank Hapoalim as lender under the USD 22.150.000 facility to W29 Owner LLC, a direct and 100% subsidiary of the joint venture (W29 Development LLC). Further, the Company, in its capacity as guarantor under the facility, agreed to indemnify Bank Hapoalim for a breach of certain obligations under the loan agreement as well as for certain environmental issues in relation to the properties acquired by W29 Owner LLC up to an aggregate amount of USD 33.225.000. This indemnification was a joint and several liability for the Company and the joint venture partner. Following the acquisition of the 50% membership interest in W29 Development LLC by the Company from its joint venture partner as well as the extension of the loan facilities, the Company is now the sole guarantor as the joint venture partner was released as part of the acquisition arrangements.

## Note 15 Borrowings

The borrowings of the Group are composed as follows:

| **As at 31 December 2019** | **€ denominated £'000** | **£ denominated £'000** | **HRK denominated £'000** | **Total £'000** |
|---|---|---|---|---|
| **Fixed interest rate** | **220,964** | **420,213** | **22,091** | **663,268** |
| Weighted average interest rate | 2.18% | 3.62% | 1.95% | – |
| **Variable interest rate** | **12,513** | **7,116** | **–** | **19,629** |
| Weighted average interest rate | 1.09% | 3.07% | 0.00% | – |
| **Total** | **233,477** | **427,329** | **22,091** | **682,897** |
| Weighted average interest rate | 2.13% | 3.61% | 1.95% | 3.05% |

| **Maturity analysis 2019** | **Outstanding amount** | **Year 1** | **Year 2** | **Year 3** | **Year 4** | **Year 5** | **Thereafter** |
|---|---|---|---|---|---|---|---|
| Total borrowings | **682,897** | **13,916** | **13,997** | **14,037** | **15,730** | **13,641** | **611,576** |
| Capitalised transaction costs and other adjustments | **(4,636)** | **(600)** | **(600)** | **(600)** | **(600)** | **(600)** | **(1,636)** |
| | **678,261** | **13,316** | **13,397** | **13,437** | **15,130** | **13,041** | **609,940** |

For securities and pledges, see Note 14.

| As at 31 December 2018 | € denominated £'000 | £ denominated £'000 | Total £'000 |
|---|---|---|---|
| **Fixed interest rate** | 254,981 | 425,837 | 680,818 |
| Weighted average interest rate | 2.72% | 3.62% | – |
| **Variable interest rate** | 13,774 | 7,950 | 21,724 |
| Weighted average interest rate | 1.09% | 3.07% | – |
| **Total** | 268,755 | 433,787 | 702,542 |
| Weighted average interest rate | 2.18% | 3.61% | 3.06% |

| Maturity analysis 2018 | Outstanding amount | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Thereafter |
|---|---|---|---|---|---|---|---|
| Total borrowings | 702,542 | 15,310 | 13,810 | 13,847 | 13,889 | 15,672 | 630,014 |
| Capitalised transaction costs and other adjustments | (5,251) | (602) | (602) | (602) | (602) | (602) | (2,241) |
| | 697,291 | 14,708 | 13,208 | 13,245 | 13,287 | 15,070 | 627,773 |

For securities and pledges, see Note 14.

### a. Financing of Leeds, Nottingham, Park Royal and County Hall London units

In June 2018, the Company, via four wholly owned entities, entered into a seven-year, £45 million loan financing agreement with Bank Hapoalim. The loan bears a fixed interest rate of 4.37% and is secured against Park Plaza Leeds, Park Plaza Nottingham, Park Plaza Park Royal and the 46 units owned in Park Plaza County Hall London. Some of the proceeds of the new loan were utilised to refinance the Park Royal construction facility which matured in June 2018.

### b. Repayment of Park Plaza Leeds loan

In March 2018, the outstanding £12.1 million Royal Bank of Scotland loan secured against Park Plaza Leeds was fully repaid. The associated interest rate hedge was also terminated. Accordingly, £46 thousand was recycled to the income statement. In addition, amortised discount on the loan in the amount of £314 thousand was written off to the income statement.

### c. Financing of Arena One 99 Glamping

In June 2018, Arena entered into a five-year financing agreement with Erste Bank. The maturity profile is back ended with 50% of the loan being repaid at maturity and with an interest rate fixed at 1.95% throughout the life of the loan. The facility was mainly used to fund the investment in the newly created Arena One 99 Glamping property which opened in 2018.

# Note 15 Borrowings continued

## d. The following financial covenants must be complied with by the relevant Group companies:

(i) Under the two Aareal facilities, for two of the Group's London hotels (the 'London Hotels') and all six of the Group's Dutch hotels (the 'Dutch Hotels'), the borrowers must ensure that the aggregate amount of the outstanding facilities does not exceed 65.2% of the value of the Dutch Hotels and 60% of the value of the London Hotels as set out in the most recent valuation. In addition, the borrowers must ensure that, on each interest payment date, the Debt Service Coverage Ratio (DSCR) is not less than 115%.

(ii) Under the AIG Asset Management (Europe) Limited facility for Park Plaza Westminster Bridge London, the borrower must ensure that the aggregate amount of the outstanding facility does not exceed 70% of the value of the hotel as set out in the most recent valuation. In addition, the borrower must ensure that, on each interest payment date, the historical and projected DSCR are not less than 140%. The floating rate leg of this loan £7.1 million (as at 31 December 2019) has an associated interest rate cap, hedging the risk of the all-in rate exceeding 3.5%.

(iii) Under the facility arranged by Cornerstone Real Estate Advisers Europe LLP, a member of the MAFF Mutual Financial Group, for Park Plaza Victoria London, the borrower must ensure that the aggregate amount of the outstanding facility does not exceed 75% of the value of the hotel as set out in the most recent valuation. In addition, the borrower must ensure that, on each interest payment date, the historical and projected DSCR are not less than 180%.

(iv) Under the BHI Luxembourg Loan for three of the Group's UK hotels and the 46 units owned within Park Plaza County Hall London, the borrowers must ensure that the aggregate amount of the outstanding loan does not exceed 65% of the value of the properties and units secured. In addition, on each interest payment date, the borrowers must ensure that the historical debt service cover should be at least 110% from March 2019, rising to 120% following the third anniversary of the agreement.

(v) In March 2019, W29 Owner LLC entered into a Loan agreement with BHI New York for an amount of $22.15 million where PPHE Hotel Group Limited is a guarantor. Under this agreement, PPHE Group Limited must ensure that it maintains an aggregate net worth of at least $33 million and have liquid assets with a market value of at least $5 million.

(vi) Under the Deutsche Hypothekenbank AG facility for ACO Hotel Holding B.V. and ABK Hotel Holding B.V., the borrower must ensure throughout the entire term of the loan that the outstanding amount of the loan does not exceed 70% of the value of the properties and that the DSCR is not less than 110%.

(vii) Under the Deutsche Hypothekenbank AG facility for Park Plaza Nuremberg, the borrower must ensure throughout the entire term of the loan that the outstanding amount of the loan does not exceed 65% of the value of the property and that the DSCR is not less than 180%.

(viii) Under the Zabrebačka Banka d.d joint €32.0 million and HRK 205.0 million facilities, the borrower must ensure that at year end, based on audited standalone financial statements of the borrower, the DSCR is equal to or greater than 120% during the life of the loan and that the net leverage ratio is equal to or lower than 5.5 at year end 2019, is equal to or lower than 5.0 at year end 2020, and is equal to or lower than 4.5 at year end 2021 and for each succeeding calendar year during the remaining life of the loan.

(ix) Under the Zabrebačka Banka d.d €10.0 million and HRK 60.0 million facilities, the borrower must ensure that at year end, based on audited consolidated financial statements of the borrower, the DSCR is equal to or greater than 120% during the life of the loan and that the net leverage ratio is equal to or lower than 5.5 at year end 2019, is equal to or lower than 5.0 at year end 2020, and is equal to or lower than 4.5 at year end 2021 and for each succeeding calendar year during the remaining life of the loan. Moreover, under the HRK 60 million facility, the amount of the loan cannot exceed 70% of the value of the properties.

(x) Under the Erste Bank €5.0 million and €10.2 million facilities, the borrower must ensure throughout the entire term of the loan that the interest coverage ratio ('ICR') is at least 2 times EBITDA.

As at 31 December 2019, the Group is in compliance with all of its banking covenants.

# Note 16 Provisions

## a. Provision for litigation

Arena was a defendant in five disputes relating to claims of utility companies Pula Herculanea d.o.o. (one case) and Vodovod Pula d.o.o. (four cases), all relating to payment of fees and charges for maintenance and development of the water supply and sewage infrastructure system charged to the Company based on water consumption. Sufficient provisions were provided for in the accounts for these disputes. These cases have now been settled. Consequently, the relevant provisions in the accounts are now released, which release results in HRK 8.5 million (£1.1 million) in other income (see Note 25 (b)).

| | **2019 £'000** | 2018 £'000 |
|---|---|---|
| Balance as at 1 January | **3,873** | 3,659 |
| Exchange rate differences | **(94)** | 91 |
| Movement in the year | **(3,779)** | 123 |
| Balance as at 31 December | **–** | 3,873 |

## Note 16 Provisions continued

### b. Provision for concession fee on land

In accordance with the provisions of the Act on the Tourist and Other Construction Land Not Appraised During the Transition and Privatisation Process (the 'Act'), the Company submitted requests to the Republic of Croatia for the award of tourist land concessions for a term of 50 years (the maximum term allowed) in relation to land areas in eight campsites and three self–catering holiday apartment complexes in Croatia. Since the adoption of the Act in 2010, as far as the Company is aware, no concession agreement has been entered into with respect to tourist land in campsites/tourist resorts in the Republic of Croatia due to ambiguities in the wording of the Act and other related regulations. The status of the Company's tourist land concession requests is similar to the status of concession requests submitted by other companies in the Republic of Croatia. In relation to the concession arrangements in respect of the eight campsites and three self-catering holiday apartment complexes, the Republic of Croatia and the Company need to (i) determine the co-ownership parts of the land (based on which definite amounts of the concession fees due on that part of the land owned by the Republic of Croatia would be determined) and (ii) upon granting of the concession by the Republic of Croatia, enter into the respective concession agreements. In practice, the companies that have submitted requests for a tourist land concession regularly pay an advance concession fee of 50% of the calculated concession fee in accordance with the relevant regulations. As such, the Company will continue to pay 50% of the concession fees in respect of the eight campsites and three self-catering holiday apartment complexes and to accrue the remaining 50% until determination of the concession agreements, which is presented as a provision in the financial statements.

| | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|
| Balance as at 1 January | **4,330** | 3,591 |
| Additions | **652** | 644 |
| Exchange rate differences | **(252)** | 95 |
| Balance as at 31 December | **4,730** | 4,330 |

## Note 17 Financial liability in respect of Income Units sold to private investors

| | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|
| Total liability | **143,268** | 144,264 |
| Due from investors for reimbursement of capital expenditure | **(16,564)** | (15,113) |
| | **126,704** | 129,151 |

This liability originated from the proceeds received from the sale to private investors of the future 999-year cash flows, derived from certain Income Units in Park Plaza Westminster Bridge London. Furthermore, as the investors are required to fund all capital expenditures ('capex') to be made in connection with these rooms, a receivable is recorded in each period for any excess of depreciation expense over the amounts paid by the investors on account of capex. This receivable is offset from the liability to the investors. See Note 7(a) for information regarding income swap agreements.

This liability is amortised over the term of the agreement, that being 999 years.

## Note 18 Other financial liabilities

| | As at 31 December | |
|---|---|---|
| | **2019**<br>**£'000** | 2018<br>£'000 |
| Derivative financial instruments | **674** | 239 |
| Lease liabilities (see Note 19) | **227,998** | 187,701 |
| Deposits received in respect of Income Units sold to private investors | **–** | 11 |
| Other | **301** | 318 |
| | **228,973** | 188,269 |

# Note 19 Leases

## Group as a lessee

The Group has lease contracts for various items which mainly includes hotels, including land, offices and storage buildings. Leases of land have lease terms between 125-199 years while hotel buildings, offices and storage have lease terms between 2 and 95 years. The Group's obligations under its leases are secured by the lessor's title to the leased assets.

The Group also has certain leases with lease terms of 12 months or less and leases with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

| | Land £'000 | Hotel buildings £'000 | Offices and storage £'000 | Furniture, fixtures and equipment £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| Balance as at 1 January 2019 | 86,149 | 114,026 | 8,471 | 23,873 | 232,519 |
| Additions during the year | – | – | 1,037 | – | 1,037 |
| Disposal | – | - | (689) | – | (689) |
| Remeasurement of right-of-use assets | – | 4,909 | – | – | 4,909 |
| Adjustment for exchange rate differences | (608) | (970) | (28) | – | (1,606) |
| Balance as at 31 December 2019 | 85,541 | 117,965 | 8,791 | 23,873 | 236,170 |
| **Accumulated depreciation and impairment:** | | | | | |
| Balance as at 1 January 2019 | 4,014 | 1,664 | – | 4,870 | 10,548 |
| Provision for depreciation | 462 | 3,360 | 1,159 | 2,968 | 7,949 |
| Disposal | – | – | (235) | – | (235) |
| Adjustment for exchange rate differences | (6) | (76) | – | – | (82) |
| Balance as at 31 December 2019 | 4,470 | 4,948 | 924 | 7,838 | 18,180 |
| **Net book value as at 31 December 2019** | 81,071 | 113,017 | 7,867 | 16,035 | 217,990 |

Set out below are the carrying amounts of lease liabilities (included under Other financial liabilities and Other payables) and the movements during the period:

| | As at 31 December | |
|---|---|---|
| | **2019 £'000** | 2018 £'000 |
| **As at 1 January** | **227,078** | 182,962 |
| Additions | **1,037** | – |
| Disposals | **(458)** | – |
| Accretion of interest | **9,146** | 7,168 |
| Payments | **(12,531)** | (7,251) |
| Remeasurement of lease liability recorded in other expenses | **3,359** | 4,822 |
| Remeasurement of lease liability adjusted against right-of-use assets | **4,909** | – |
| Adjustments for foreign exchange differences | **(946)** | – |
| **As at 31 December** | **231,594** | 187,701 |
| Current | **3,596** | – |
| Non current | **227,998** | 187,701 |

## Note 19 Leases

Set below is a split of the lease liabilities, cash payments and effect in the income statement between lease agreements for a period longer than 100 years ("long term leases") and leases for a period of up to 35 years ("short term leases").

| | Year ended 31 December 2019 £'000 | | |
|---|---|---|---|
| | **Long term leases (>100)** | **Short term leases (<35)** | **Total** |
| Lease liabilities | **194,997** | **36,597** | **231,594** |
| Fixed lease payments | **8,203** | **4,328** | **12,531** |
| Accretion of interest | **8,203** | **943** | **9,146** |
| Depreciation | **4,250** | **3,699** | **7,949** |

Details regarding certain long term lease agreements are as below:

(a) Grandis Netherlands Holding B.V. ('Grandis') has a land leasehold interest, expiring in 2095, of Park Plaza Sherlock Holmes London. The current annual rent amounts to £1,140 thousand (subject to 'open market value' rent review every five years).

Grandis has an option to extend the lease to a total of 125 years, expiring in 2121. The Company also has an option to terminate the lease in 2059.

(b) Riverbank Hotel Holding B.V. has a land leasehold interest, expiring in 2125, for Park Plaza London Riverbank, subject to rent review every five years, based on CPI. A deed of variation of the lease of Park Plaza London Riverbank was entered into on 13 June 2014 under which the rent payable under the lease increased to £1,001 thousand per annum and the tenant was granted a right to renew the lease for an additional 60 years. At completion of the deed, the landlord paid £5.0 million to Riverbank Hotel Holding B.V., which is accounted for as part of the long-term finance lease liability.

(c) On 18 June 2012, Park Royal Hotel Holding B.V. ('Park Royal') completed the purchase of the freehold property at 628 Western Avenue, Park Royal, London (the 'Site'), which was a development site on one of the main thoroughfares into London, for £6.0 million. Simultaneously, Park Royal completed the sale of the Site at a price of £7.0 million and the leaseback of the Site at an initial rent of £306 thousand per year for 170 years.

(d) On 20 July 2017, Waterloo Hotel Holding B.V. completed the sale of Park Plaza London Waterloo for £161.5 million subject to a leaseback for 199 years. The initial rent of £5.6 million per year will have annual inflation adjustments subject to a cap of 4% and collar of 2%.

The following are the amounts recognised in profit or loss:

| | As at 31 December **2019 £'000** |
|---|---|
| Depreciation expense of right-of-use assets | **7,949** |
| Interest expense on lease liabilities | **9,146** |
| Expense relating to low-value assets and short-term leases (included in operating expenses) | **248** |
| Expense relating to low-value assets and short-term leases (included in rent expenses) | **331** |
| Variable lease payments (included in rent expenses) | **1,443** |
| **Total amount recognised in profit or loss** | **19,117** |

The Group had total cash outflows for leases of £14,553 thousands in 2019.

The following provides information on the Group's variable lease payments, including the magnitude in relation to fixed payments in 2019:

| | As at 31 December | | |
|---|---|---|---|
| | **Fixed payments £'000** | **Variable payments £'000** | **Total £'000** |
| Fixed rent | **11,721** | **–** | **11,721** |
| Variable rent with minimum payment | **810** | **431** | **1,241** |
| Variable rent only | **–** | **1,012** | **1,012** |

## Note 20 Other payables and accruals

| | As at 31 December | |
|---|---|---|
| | **2019 £'000** | 2018 £'000 |
| Current portion of lease liabilities | **3,596** | – |
| Employees | **2,991** | 2,260 |
| VAT and taxes | **10,888** | 8,281 |
| Accrued interest | **3,087** | 3,036 |
| Corporate income taxes | **1,408** | 1,371 |
| Accrued expenses | **10,908** | 12,197 |
| Advance payments received** | **10,391** | 9,029 |
| Accrued rent | **835** | 1,858 |
| Variable income payment to holders of Income Units | **3,222** | 3,065 |
| Related parties* | **–** | 372 |
| | **47,326** | 41,469 |

* See Note 30.
** All the advance payments received as of 31 December 2019 were recognised as revenue in 2020.

## Note 21 Revenues

| | Year ended 31 December | |
|---|---|---|
| | **2019 £'000** | 2018 £'000 |
| Rooms | **250,608** | 236,641 |
| Campsites and mobile homes | **17,584** | 16,039 |
| Food and beverage | **75,363** | 75,640 |
| Minor operating | **7,102** | 7,325 |
| Management fee (see Note 14(c)(i)) | **2,467** | 2,356 |
| Franchise and reservation fee (see Note 14(c)(i)) | **1,734** | 1,104 |
| Marketing fee | **852** | 821 |
| Other | **1,982** | 1,556 |
| | **357,692** | 341,482 |

## Note 22 Operating expenses

| | Year ended 31 December | |
|---|---|---|
| | **2019 £'000** | 2018 £'000 |
| Salaries and related expenses | **107,146** | 102,012 |
| Franchise, reservation and commissions expenses (see Note 14(c)(i)) | **27,830** | 25,987 |
| Food and beverage | **18,171** | 17,796 |
| Insurance and property taxes | **17,937** | 16,188 |
| Utilities | **11,126** | 11,205 |
| Administration costs | **7,812** | 7,029 |
| Maintenance | **6,937** | 6,491 |
| Laundry, linen and cleaning | **5,039** | 4,591 |
| Supplies | **4,481** | 4,164 |
| IT expenses | **1,673** | 1,537 |
| Communication, travel and transport | **2,637** | 2,794 |
| Marketing expenses | **2,308** | 2,526 |
| Defined contribution pension premiums | **3,980** | 1,142 |
| Other expenses | **15,947** | 17,313 |
| | **233,024** | 220,775 |

## Note 23 Financial expenses

| | Year ended 31 December | |
|---|---|---|
| | **2019 £'000** | 2018 £'000 |
| Interest and other finance expenses on bank loans | **22,768** | 23,372 |
| Interest on lease liabilities | **9,146** | 7,168 |
| Foreign exchange differences, net | **112** | 635 |
| Loss from marketable securities | **–** | 679 |
| Other | **63** | 132 |
| | **32,089** | 31,986 |

## Note 24 Financial income

| | Year ended 31 December | |
|---|---|---|
| | **2019 £'000** | 2018 £'000 |
| Income from Park Plaza County Hall London Income Units | **1,057** | 1,024 |
| Interest on bank deposits | **395** | 452 |
| Gain from marketable securities | **900** | – |
| Interest and other financial income from jointly controlled entities (see Note 30(b)) | **571** | 92 |
| | **2,923** | 1,568 |

## Note 25 Other income and expenses

### a. Other expenses

| | Year ended 31 December | |
|---|---|---|
| | **2019 £'000** | 2018 £'000 |
| Capital loss on buy-back of Income Units previously sold to private investors | **694** | 601 |
| Loss upon repayment of loan | **–** | 360 |
| Termination of operating lease ** | **–** | 3,141 |
| Remeasurement of lease liability * | **3,359** | 4,822 |
| Expenses in connection with Premium Listing | **–** | 1,556 |
| Loss on disposal of fixed assets | **301** | – |
| Other non-recurring expenses (including pre-opening expenses) | **756** | 208 |
| | **5,110** | 10,688 |

* This amount represents remeasurement of the Waterloo lease liability based on the 2% collar – see Note 19.

** In March 2018, the Group entered into an agreement to terminate the loss-making lease agreement for the 174-room art'otel dresden, effective from 31 July 2018. To exit from this lease, the Group suffered an expense of £3.1 million.

### b. Other income

| | Year ended 31 December | |
|---|---|---|
| | **2019 £'000** | 2018 £'000 |
| Gain on re-measurement of previously held interest in joint venture (see Note 6) | **–** | 20,280 |
| Recycling of hedging reserve upon refinancing | **–** | 46 |
| Release of deposit of unit holder | **–** | 68 |
| Revaluation of Income Units County Hall (see Note 7) | **923** | – |
| Release of provision for litigation (see Note 16(a)) | **1,093** | – |
| Gain on sale of fixed assets | **209** | – |
| | **2,225** | 20,394 |

## Note 26 Net expenses for financial liability in respect of Income Units sold to private investors

| | Year ended 31 December | |
|---|---|---|
| | **2019 £'000** | 2018 £'000 |
| Guaranteed return (see Note 2(k)) | **955** | 942 |
| Variable return (see Note 2(k)) | **12,182** | 11,417 |
| Reimbursement of depreciation expenses (see Note 2(k)) | **(2,592)** | (2,404) |
| Change in expected cash flow income swaps (see Note 7) | **250** | 363 |
| | **10,795** | 10,318 |

## Note 27 Income taxes

### a. Tax benefit (expense) included in the income statement

| | Year ended 31 December | |
|---|---|---|
| | **2019 £'000** | 2018 £'000 |
| Current taxes | **(1,591)** | (3,317) |
| Adjustments in respect of current income tax of previous year | **1,303** | 68 |
| Deferred taxes | **4,393** | 298 |
| | **4,105** | (2,951) |

### b. The following are the major deferred tax (liabilities) and assets recognised by the Group and changes therein during the period:

| | Tax loss carry forward and timing difference on provisions £'000 | Property, plant and equipment and intangible assets £'000 | Tax Incentives £'000 | Total £'000 |
|---|---|---|---|---|
| Balance as at 1 January 2018 | 3,318 | (10,565) | | (7,247) |
| Amounts charged to income statement | (36) | (160) | – | (196) |
| Change in tax rate | – | 491 | – | 491 |
| Adjustments for exchange rate differences | 20 | (88) | – | (68) |
| Balance as at 31 December 2018 | 3,302 | (10,322) | | (7,020) |
| Amounts charged to income statement | (415) | (538) | 4,873 | 3,920 |
| Change in tax rate | – | 191 | – | 191 |
| Adjustments for exchange rate differences | (36) | 345 | (147) | 162 |
| **Balance as at 31 December 2019** | 2,851 | (10,324) | 4,726 | (2,747) |

The above deferred taxes have been set off when they relate to the same jurisdictions and presented in the consolidated financial statements as follows:

| | As at 31 December | |
|---|---|---|
| | **2019 £'000** | 2018 £'000 |
| Deferred tax assets | **5,173** | 95 |
| Deferred tax liabilities | **(7,920)** | (7,115) |
| | **(2,747)** | (7,020) |

## Note 27 Income taxes continued

### c. Reconciliation between tax benefit (expense) and the product of accounting profit multiplied by the Group's tax rate is as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2019 £'000** | 2018 £'000 |
| Profit before income taxes | **38,477** | 46,383 |
| Expected tax at the tax rate of the United Kingdom 20% | **(7,695)** | (9,277) |
| Adjustments in respect of: | | |
| Effects of other tax rates | **3,672** | 11,788 |
| Non-deductible expenses | **(71)** | (1,476) |
| Utilisation of carried forward losses and temporary differences for which deferred tax assets were not previously recorded | **1,336** | 678 |
| Temporary differences for which no deferred tax asset was recorded | **(73)** | (726) |
| Non-taxable income | **779** | 481 |
| Unrecognised current year tax losses | **(282)** | (4,931) |
| Recognition of investment tax credit (see f below) | **6,351** | |
| Other differences (including change in tax rate) | **88** | 512 |
| Income tax benefit (expense) reported in the income statement | **4,105** | (2,951) |

### d. Tax laws applicable to the Group companies:

(i) The Company is subject to taxation under the laws of Guernsey. The Company is therefore taxed at the standard rate of 0%.

(ii) Foreign subsidiaries are subject to income taxes in their country of domicile in respect of their income, as follows:

1. Taxation in the Netherlands: corporate income tax rate is 25%.
2. Taxation in the United Kingdom: corporate income tax rate for domiciled companies 20% and for non-domiciled companies is 20%.
3. Taxation in Germany: aggregated corporate tax rate and trade income rate 29.7%.
4. Taxation in Hungary: corporate income tax rate 9%.
5. Taxation in Croatia: corporate income tax rate 18%.

In December 2018, the Dutch Senate adopted the 2019 law business offered by the parliament which included a gradual reduction in corporate income tax. According to this new legislation, corporate income tax rate will reduce to 22.55% in 2020 and 20.5% in 2021 and onwards. However the adopted reductions were updated under the 2020 tax plan which was adopted on 17 December 2019 and it was decided that the corporate income tax rate for 2020 will remain at 25% and from 2021 onwards the rate will be 21.7%.

### e. Losses carried forward for tax purposes

The Group has carried forward losses for tax purposes estimated at approximately £120 million (2018: £142 million). The Group did not establish deferred tax assets in respect of losses amounting to £108 million (2018: £130 million) of which tax losses amounting to £4 million may be utilised for a period of up to seven years. The remaining tax losses may be carried forward indefinitely.

The carried forward losses relate to individual companies in the Group, each in its own tax jurisdiction. When analysing the recovery of these losses the Group assesses the likelihood that these losses can be utilised against future trading profits. In this analysis the Group concluded that for the majority of these companies it is not highly likely that future profits will be achieved that can be offset against these losses, mainly due to the nature of their trade (i.e. holding companies or tax exempt activities). Based on this uncertain profitability, the Company determined that it could not recognise deferred tax assets for the majority of the losses. The Company is performing this analysis on an ongoing basis.

### f. Tax incentives

In May 2019, pursuant to the Investment Promotion and Development of Investment Climate Act in Croatia (the "Climate Act"), Arena became eligible to claim incentive allowances. According to the Climate Act, upon investing an amount between €3 million and €50 million in existing properties and meeting certain conditions, Arena will be entitled to a tax incentive of up to 25% of the actual investment which can be utilised against taxable profits for a period of ten years from the investment start date. During 2019 and 2018 Arena invested a total amount eligible for incentives of HRK 173.3 million (£20.4 million) and HRK 68.8 million (£8.2 million), respectively.

In 2019 Arena utilised investment tax credit in respect of 2019 in the amount of HRK 7.5 million (£0.9 million) and in respect of 2018 an amount of HRK 11.8 million (£1.4 million). The unutilised investment tax credit was recognised as deferred tax asset in an amount of HRK 41.3 million (£4.1 million).

Arena has the right to use the investment tax credits in the next ten years from the approval date granted by the relevant authorities. The execution of the investment project is subject to supervision by the relevant institutions and the subsidiary is not permitted to reduce the number of new jobs created (as one of the requirements to qualify for the incentives) in addition to other conditions, throughout the period of the incentive measures. If the prescribed conditions for the tax incentives are not met, Arena would be liable to retroactively pay income tax inclusive of any penalty interest.

## Note 28 Earnings per share

The following reflects the income and share data used in the basic earnings per share computations:

| | Year ended 31 December | |
|---|---|---|
| | **2019 £'000** | 2018 £'000 |
| Profit attributable to equity holders of the parent | **33,915** | 38,052 |
| Weighted average number of ordinary shares outstanding | **42,391** | 42,335 |

Potentially dilutive instruments 211,518 in 2019 (2018: 189,428) had an immaterial effect on the basic earnings per share.

## Note 29 Segments

For management purposes, the Group's activities are divided into Owned Hotel Operations and Management Activities (for further details see Note 14(c)(i)). Owned Hotel Operations are further divided into four reportable segments: the Netherlands, Germany and Hungary, Croatia and the United Kingdom. The operating results of each of the aforementioned segments are monitored separately for the purpose of resource allocations and performance assessment. Segment performance is evaluated based on EBITDA, which is measured on the same basis as for financial reporting purposes in the consolidated income statement.

| | Year ended 31 December 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **The Netherlands £'000** | **Germany and Hungary £'000** | **United Kingdom £'000** | **Croatia £'000** | **Management and Central Services £'000** | **Adjustments* £'000** | **Consolidated £'000** |
| Revenue | | | | | | | |
| Third party | **53,776** | **29,521** | **207,381** | **61,147** | **5,867** | | **357,692** |
| Inter-segment | | | | | **38,384** | **(38,384)** | **–** |
| Total revenue | **53,776** | **29,521** | **207,381** | **61,147** | **44,251** | **(38,384)** | **357,692** |
| Segment EBITDA | **15,003** | **8,704** | **70,696** | **18,227** | **10,264** | **–** | **122,894** |
| Depreciation, amortisation and impairment | | | | | | | **(41,749)** |
| Financial expenses | | | | | | | **(32,089)** |
| Financial income | | | | | | | **2,923** |
| Net expenses for liability in respect of Income Units sold to private investors | | | | | | | **(10,795)** |
| Other expenses, net | | | | | | | **(2,885)** |
| Share in result of joint ventures | | | | | | | **178** |
| Profit before tax | | | | | | | **38,477** |

* Consist of inter-company eliminations.

| | **The Netherlands £'000** | **Germany and Hungary £'000** | **United Kingdom £'000** | **Croatia £'000** | **Adjustments[2] £'000** | **Consolidated £'000** |
|---|---|---|---|---|---|---|
| Geographical information | | | | | | |
| Non-current assets[1] | **202,673** | **97,195** | **840,130** | **178,928** | **30,761** | **1,349,687** |

[1] Non-current assets for this purpose consists of property, plant and equipment, right to use assets and intangible assets.
[2] This includes the fixed assets of Management and Central Services and the intangible fixed assets.

## Note 29 Segments continued

| | Year ended 31 December 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | The Netherlands £'000 | Germany and Hungary £'000 | United Kingdom £'000 | Croatia £'000 | Management and Central Services £'000 | Adjustments* £'000 | Consolidated £'000 |
| **Revenue** | | | | | | | |
| Third party | 49,569 | 31,443 | 195,092 | 60,193 | 5,185 | – | 341,482 |
| Inter-segment | – | – | – | – | 36,823 | (36,823) | – |
| Total revenue | 49,569 | 31,443 | 195,092 | 60,193 | 42,008 | (36,823) | 341,482 |
| **Segment EBITDA** | 14,091 | 5,242 | 65,006 | 18,558 | 10,275 | – | 113,172 |
| Depreciation, amortisation and impairment | | | | | | | (35,903) |
| Financial expenses | | | | | | | (31,986) |
| Financial income | | | | | | | 1,568 |
| Net expenses for liability in respect of Income Units sold to private investors | | | | | | | (10,318) |
| Other income, net | | | | | | | 9,706 |
| Share in result of joint ventures | | | | | | | 144 |
| Profit before tax | | | | | | | 46,383 |

* Consist of inter-company eliminations.

| | The Netherlands £'000 | Germany and Hungary £'000 | United Kingdom £'000 | Croatia £'000 | Adjustments[2] £'000 | Consolidated £'000 |
|---|---|---|---|---|---|---|
| Geographical information | | | | | | |
| Non-current assets[1] | 206,964 | 78,066 | 814,089 | 167,286 | 25,843 | 1,292,248 |

1 Non-current assets for this purpose consists of property, plant and equipment and intangible assets.
2 This includes the fixed assets of Management and Central Services and the intangible fixed assets.

## Note 30 Related parties

### a. Balances with related parties

| | As at 31 December | |
|---|---|---|
| | **2019 £'000** | 2018 £'000 |
| Loans to joint ventures | **11,720** | 4,134 |
| Short-term receivables | **34** | 1,605 |
| GC Project Management Limited | **261** | (372) |

### b. Transactions with related parties

| | Year ended 31 December | |
|---|---|---|
| | **2019 £'000** | 2018 £'000 |
| GC Project Management Limited | **2,980** | 3,086 |
| Interest income from jointly controlled entities | **571** | 92 |

# Note 30 Related parties continued

## c. Significant other transactions with related parties

(i) **Project Management Contracts** – The Group actively engages in the development of properties into new hotels and the refurbishment and/or extension of its existing portfolio of hotels. The Group has contracted, and currently contracts, with GC Project Management Limited (GC), for project management services in respect of its projects. The Group entered into six project management agreements with GC in 2018 for its various projects. Each such agreement provides for a capped amount payable by the Group to GC in respect of each such project. Five projects Out of the six Project Management Contracts have been completed and as at 31 December 2019 only one project management Contract is still active.

(ii) **Pre-Construction and Maintenance Contract** – The Group frequently uses GC to undertake preliminary assessment services, including appraisal work, and provide initial estimates of the construction costs. Further, GC provides ad-hoc maintenance work when required to the Group's various sites. Accordingly, the Group has entered into an agreement with GC for the provision of pre-construction and maintenance services by GC to the Group for a fixed annual retainer of £60,000.

(iii) Transactions in the ordinary course of business, in connection with the use of hotel facilities (such as overnight room stays and food and beverages) are being charged at market prices. These transactions occur occasionally.

(iv) Compensation to key management personnel (Executive and Non-Executive Directors) for the year ended 31 December 2019:

| | Base salary and fees £'000 | Bonus £'000 | Additional Remuneration £'000 | Retention award £'000 | Pension contributions £'000 | Other benefits £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| Chairman and Executive Directors | **655** | **60** | **–** | **53** | **113** | **5** | **886** |
| Non-Executive Directors | **443** | **–** | **30** | | **–** | **–** | **473** |
| | **1,098** | **60** | **30** | **53** | **113** | **5** | **1,359** |

**Directors' interests in employee share incentive plan**

As at 31 December 2019, the Executive Directors held share options to purchase 75,000 ordinary shares. 50,000 options were fully exercisable with an exercise price of £6.90 and 8,333 options were fully exercisable with an exercise price of £14.30. No share options were granted to Non-Executive members of the Board.

(vi) Compensation to key management personnel (Executive and Non-Executive Directors) for the year ended 31 December 2018:

| | Base salary and fees £'000 | Bonus £'000 | Retention award £'000 | Pension contributions £'000 | Other benefits £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| Chairman and Executive Directors | 799 | 40 | 21 | 112 | 20 | 992 |
| Non-Executive Directors | 219 | – | – | – | – | 219 |
| | 1,018 | 40 | 21 | 112 | 20 | 1,211 |

## Note 31 Financial risk management objectives and policies

The Group's principal financial instruments, other than derivatives, and marketable securities comprise bank borrowings, cash and cash equivalents and restricted deposits. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

| | | Changes in financial liabilities arising from financing activities | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **As at 1 January 2019 £'000** | **Cash flows £'000** | **Remeasurement through profit and loss £'000** | **Remeasurement again set right-of-use-assets £'000** | **Foreign exchange movement £'000** | **New leases/ loans, net £'000** | **Other £'000** | **31 December 2019 £'000** |
| Non-current interest-bearing loans and borrowings | **681,981** | **(13,883)** | **–** | **–** | **(13,332)** | **8,948** | **631** | **664,345** |
| Non-current lease liability | **223,407** | **(3,385)** | **3,359** | **4,909** | **(871)** | **579** | **–** | **227,998** |
| Financial liability in respect of Income Units sold to private investors | **129,151** | **(929)** | **–** | **–** | **–** | **–** | **(1,518)** | **126,704** |
| Derivative financial instruments | **239** | **–** | **–** | **–** | **(28)** | **–** | **463** | **674** |
| Current interest-bearing loans and borrowings | **15,310** | **(1,568)** | **–** | **–** | **(477)** | **651** | **–** | **13,916** |
| Current lease liability | **3,671** | **–** | **–** | **–** | **(75)** | **–** | **–** | **3,596** |
| | **1,053,759** | **(19,765)** | **3,359** | **4,909** | **(14,783)** | **10,178** | **(424)** | **1,037,233** |

| | | Changes in financial liabilities arising from financing activities | | | | | |
|---|---|---|---|---|---|---|---|
| | As at 1 January 2018 £'000 | Cash flows £'000 | Remeasurement through profit and loss £'000 | Foreign exchange movement £'000 | New leases/loans £'000 | Other £'000 | As at 31 December 2018 £'000 |
| Non-current interest-bearing loans and borrowings | 666,936 | (46,958) | – | 3,572 | 57,874 | 557 | 681,981 |
| Lease liability | 182,962 | (83) | 4,822 | – | – | – | 187,701 |
| Financial liability in respect of Income Units sold to private investors | 131,632 | (1,109) | – | – | – | (1,372) | 129,151 |
| Derivative financial instruments | 590 | (653) | – | 4 | – | 298 | 239 |
| Third party loans | 8,873 | (8,858) | – | (15) | – | – | – |
| Current interest-bearing loans and borrowings | 32,947 | (19,437) | – | 137 | 1,663 | – | 15,310 |
| | 1,023,940 | (77,098) | 4,822 | 3,698 | 59,537 | (517) | 1,014,382 |

# Note 31 Financial risk management objectives and policies continued

The main risks arising from the Group's financial instruments are cash flow interest rate risk, credit risk and liquidity risk. The Board of Directors reviews and agrees on policies for managing each of these risks which are summarised below. The Group's accounting policies in relation to derivatives are set out in Note 2.

## a. Interest rate risk

The Group's exposure to the risk for changes in market interest rates relates primarily to the Group's long-term debt obligations with a floating interest rate.

The Group's policy is to manage its interest costs using fixed rate debt. To manage its interest costs, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed upon notional principal amount. Furthermore, the Group uses fixed interest rate debts. For this reason the Group's cash flow is not sensitive to possible changes in market interest rates. Possible changes in interest rates do, however, affect the Group's equity as the fair value of the swap agreements changes with interest rate changes. These swaps are designated to hedge underlying debt obligations.

The fair value of the swaps of the Group as at 31 December 2019 amounts to a liability of £674 thousand (2018: liability of £239 thousand).

The Group uses short-term deposits (weekly and monthly) for cash balances held in banks.

## b. Credit risk

The Group trades only with recognised, creditworthy third parties. It has policies in place to ensure that sales are made to customers with an appropriate credit history. The Company's policies ensure that sales to customers are settled through advance payments, in cash or by major credit cards (individual customers). Since the Group trades only with recognised third parties, there is no requirement for collateral for debts with third parties. Furthermore, the Group has no dependency on any of its customers. The receivable balances are monitored on an ongoing basis. Management monitors the collection of receivables through credit meetings and weekly reports on individual balances of receivables. The maximum credit exposure equals the carrying amount of the trade receivables and other receivables since a loss allowance for expected credit losses is recorded in respect of all trade and other receivables. The result of these actions is that the Group's exposure to bad debts is not significant.

With respect to credit risk arising from other financial assets of the Group, which comprise cash and cash equivalents and investment in securities, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Group has limited concentration risk in respect of its cash at banks.

## c. Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank loans. The Group's policy is to arrange medium-term bank facilities to finance its construction operation and then to convert them into long-term borrowings when required.

# Note 31 Financial risk management objectives and policies continued

## c. Liquidity risk continued

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2019 and 2018 based on contractual undiscounted payments.

| | **As at 31 December 2019** | | | | | |
|---|---|---|---|---|---|---|
| | **Less than 3 months £'000** | **3 to 12 months £'000** | **Year 2 £'000** | **Year 3 to 5 £'000** | **> 5 years £'000** | **Total £'000** |
| Interest-bearing loans and borrowings[1] | **8,460** | **26,462** | **34,683** | **103,675** | **652,537** | **825,817** |
| Financial liability in respect of Income Units sold to private investors[2] | **3,285** | **9,855** | **13,140** | **39,420** | **126,704** | **192,404** |
| Derivative financial instruments | **84** | **253** | **337** | **–** | **–** | **674** |
| Lease liability[3] | **3,178** | **9,535** | **12,710** | **37,332** | **592,114** | **654,869** |
| Trade payables | **10,466** | **–** | **–** | **–** | **–** | **10,466** |
| Other liabilities | **23,096** | **20,230** | **–** | **–** | **11,614** | **54,940** |
| | **48,569** | **66,335** | **60,870** | **180,427** | **1,382,969** | **1,739,170** |

| | As at 31 December 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 3 months £'000 | 3 to 12 months £'000 | Year 2 £'000 | Year 3 to 5 £'000 | > 5 years £'000 | Total £'000 |
| Interest-bearing loans and borrowings[1] | 9,237 | 27,710 | 36,524 | 106,477 | 688,508 | 868,456 |
| Deposits received in respect of Income Units sold to private investors | – | – | – | – | 11 | 11 |
| Financial liability in respect of Income Units sold to private investors[2] | 3,069 | 9,206 | 12,275 | 36,825 | 119,357 | 180,732 |
| Derivative financial instruments | 30 | 90 | 120 | – | – | 240 |
| Lease liability[3] | 2,012 | 6,036 | 8,048 | 24,114 | 545,097 | 585,307 |
| Trade payables | 12,162 | – | – | – | – | 12,162 |
| Other liabilities | 21,299 | 20,171 | – | – | 15,637 | 57,107 |
| | 47,809 | 63,213 | 56,967 | 167,416 | 1,368,610 | 1,704,015 |

1 See Note 15 for further information.
2 Presented according to discounted amount due to the variability of the payments over the balance of the 999-year term.
3 Lease liability includes four leases with upward rent reviews based on future market rates in one lease and changes in the Consumer Prices Index (CPI)/retail price index (RPI) in the other lease and, thus, future payments have been estimated using current market rentals and current United Kingdom-based CPIs/RPIs, respectively, except Park Plaza London Waterloo where the amounts included 50 years of future payments regarding the lease of Park Plaza London Waterloo instead of 199 years as stated in the lease agreement. Also, the amounts do not take into account the collar of 2%. The Group's management believes that the amount included in the above table reflects the relevant cash flow risks to which the Group would be reasonably exposed in the ordinary course of business.

# Note 31 Financial risk management objectives and policies continued

## d. Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. The Group monitors capital using a gearing ratio, which is net bank debt divided by total capital plus net bank debt. The Group's policy is to keep the gearing ratio between 50% and 60%. The Group includes within net bank debt interest-bearing bank loans and borrowings, less cash and cash equivalents and other liquid assets. Capital includes equity less the hedging reserve.

| | **2019 £'000** | 2018 £'000 |
|---|---|---|
| Interest-bearing bank loans and borrowings | **678,261** | 697,291 |
| Less – cash and cash equivalents | **(153,029)** | (207,660) |
| Less – long-term restricted cash | **(1,841)** | (1,884) |
| Less – short-term restricted cash | **(3,541)** | (3,672) |
| Less – investments in marketable securities | **(5,221)** | (4,449) |
| Net debt | **514,629** | 479,626 |
| Equity | **480,761** | 478,542 |
| Hedging reserve | **655** | 437 |
| Total capital | **481,416** | 478,979 |
| Capital and net debt | **996,045** | 958,605 |
| Gearing ratio | **51.7%** | 50.0% |

## e. Fair value of financial instruments

The fair values of the financial assets and liabilities are included in the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of cash and cash equivalents, trade receivables, trade payables, and other current assets and liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments. The fair value of floating interest rate liabilities also approximate their carrying amount as the periodic changes in interest rates reflect the movement in market rates.

The fair value of loans from banks and other financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

Fair value of investments in marketable securities is derived from quoted market prices in active markets. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1. The Group enters into derivative financial instruments with financial institutions with investment grade credit ratings. Derivatives are valued using valuation techniques for swap models, using present value calculations. The models incorporate various inputs, including the credit quality of counterparties, and interest rate curves. The fair value of financial instruments that are not traded in an active market (for example over-the-counter derivatives) is determined by using valuation techniques, based on a discounted cash flow. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

# Note 31 Financial risk management objectives and policies continued

### Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by a valuation technique based on the lowest level input that is significant to the fair value so determined:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at 31 December 2019, the Group held the following financial instruments measured at fair value:

**Liabilities**

| | **31 December 2019 £'000** | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 |
|---|---|---|---|---|
| Interest rate swaps used for hedging | **674** | – | 674 | – |

**Assets**

| | **31 December 2019 £'000** | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 |
|---|---|---|---|---|
| Investments in marketable securities | **5,221** | 5,221 | – | – |
| Income Units in Park Plaza County Hall London | **17,600** | – | 17,600 | – |

As at 31 December 2018, the Group held the following financial instruments measured at fair value:

**Liabilities**

| | 31 December 2018 £'000 | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 |
|---|---|---|---|---|
| Interest rate swaps used for hedging | 239 | – | 239 | – |

**Assets**

| | 31 December 2018 £'000 | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 |
|---|---|---|---|---|
| Investments in marketable securities | 4,449 | 4,449 | – | – |
| Income Units in Park Plaza County Hall London | 16,677 | – | 16,677 | – |

During 2019 and 2018, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

The carrying amounts and fair values of the Group's financial instruments other than those whose carrying amount approximates their fair value are as follows:

| | Carrying amount 31 December | | Fair value 31 December | |
|---|---|---|---|---|
| | **2019 £'000** | 2018 £'000 | **2019 £'000** | 2018 £'000 |
| **Financial liabilities** | | | | |
| Bank borrowings | **678,261** | 697,291 | **700,687** | 705,887 |

# Note 32 Subsequent events

## a. New hotel development in Zagreb

On 30 January 2020, the Company announced its plans to develop a new city centre hotel in Zagreb, Croatia, through its subsidiary Arena Hospitality Group d.d. ('Arena'). Arena has entered into a 45-year lease for the development and operation of a contemporary branded hotel in Zagreb, Croatia. The development, which is subject to obtaining the necessary permits, involves the conversion of an iconic building in a prime location in the heart of the city. Once opened, this 115-room hotel will include a destination restaurant and bar, wellness and spa facilities, fitness centre, event space and parking. The hotel is expected to open within 24 months.

## b. Final dividend

The Board is proposing a final dividend payment of 20 pence per share (2018: 19 pence per share). Subject to shareholder approval at the Annual General Meeting, to be held on 19 May 2020, the dividend will be paid on 22 May 2020 to shareholders on the register at 24 April 2020. The shares will go ex-dividend on 23 April 2020.