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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PPHE HOTEL GROUP LIMITED

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of PPHE Hotel Group Limited (the Group), which comprises the consolidated statement of financial position as at 31 December 2020, 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:

– give a true and fair view of the financial position of the Group as at 31 December 2020 and of its financial performance and its cash flows for the year then ended;
– have been properly prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union; and
– 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 2020. 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 matters 2020

1. Impact of Covid-19 on PPHE Group's business, its assessment of liquidity risks and impairment

From January 2020, Covid-19 began to spread from China to many countries across the world. Governments and authorities across the globe took various measures to mitigate the spread of the virus, primarily by enforcing partial or complete population 'lockdowns', closing geographical borders, temporarily closing businesses and imposing social distancing. As a result of these measures, the Group's operations were significantly impacted.

Note 1c to the consolidated financial statements describes the Group's actions to mitigate the impact of the pandemic, including cash flow and operating cost reduction measures. We determined that this situation is a significant audit risk due to possible breaches of loan covenants, and the increased uncertainty of adequate funding on the Group's assessment of liquidity risk. This assessment is largely based on management expectations and estimates. The assumptions are affected by subjective elements such as the estimate of expected future cash flows, forecasted results and margins from operational activities, and the ability to meet financial covenants. These estimates are based on assumptions, including expectations of future economic and market developments related to the long-term impact of Covid-19.

As discussed in Notes 4,5 and 19 to the consolidated financial statements, given the adverse effect that Covid-19 had on the hospitality sector, the Group also considered the impact of Covid-19 as an indicator of impairment of intangible assets, property, plant and equipment, and right-of-use assets. Accordingly, the recoverable amounts of these assets were determined based mostly on third party valuations using discounted cash flow models.

How our audit addressed the matter

We evaluated the Directors' assessment of liquidity risk and performed the following procedures:

- We obtained management's cash flow forecasts used to support the Directors' liquidity risk assessment and evaluated the key assumptions in the forecasts and considered whether these were supported by the evidence we obtained, including Board approved budgets.
- We tested the integrity of the underlying calculations and performed sensitivity analyses on the key drivers of the cash flow forecasts.
- We considered the reasonableness of a severe but plausible downside scenario and the determination of sufficient liquidity headroom.
- We obtained evidence supporting the Group's receipt of loan covenant waivers, as necessary, to avoid defaults for a period beyond at least 12 months from the date of approval of the consolidated financial statements.
- We reviewed the suitability and adequacy of the disclosures in the consolidated financial statements explaining the impact of Covid-19 on the results of operations, and the Directors' explanation of their assessment of the liquidity risk that was consistent with the evidence we obtained.

We evaluated management's tests of impairment of intangible assets, property, plant and equipment, and right-of-use assets by performing the following procedures:

- We obtained the third-party valuations and with the assistance of our valuation experts tested the data used in the valuation. Our focus included evaluating the methodology used, reviewing the reasonableness of key assumptions, including capitalisation rates, revenue and expense growth rates, and discount rates.
- We reviewed and tested the details and mathematical accuracy of projected cash flows.
- We reviewed the appropriateness of the disclosures of the impairment losses that were recorded and their consistency with the evidence we obtained from the performance of our procedures.

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 their 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 video 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 2020 Annual Report

Other information consists of the information included in the 2020 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:

– 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;
– 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;
– evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
– 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;
– 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
– 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 2020 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 auditors' report is Ronen Kimchi.

RONEN KIMCHI
(For and on behalf of Kost Forer Gabbay & Kasierer, member of Ernst & Young Global)
Tel Aviv, Israel
01 MARCH 2021

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2020 £'000	2019 £'000
Assets			
Non-current assets:			
Intangible assets	4	**17,754**	18,036
Property, plant and equipment	5	**1,201,358**	1,113,661
Right-of-use assets	19	**223,793**	217,990
Investment in joint ventures	6	**4,741**	18,151
Other non-current assets	7	**15,958**	18,358
Restricted deposits and cash	14(b)	**2,261**	1,841
Deferred income tax asset	27	**6,724**	5,173
		1,472,589	1,393,210
Current assets:			
Restricted deposits and cash	14(b)	**4,777**	3,541
Inventories		**2,260**	2,317
Trade receivables	8	**3,473**	12,758
Other receivables and prepayments	9	**8,044**	15,065
Other current financial assets	10	**27**	5,221
Cash and cash equivalents	11	**114,171**	153,029
		132,752	191,931
Total assets		**1,605,341**	1,585,141
Equity and liabilities			
Equity:	12		
Issued capital		**–**	–
Share premium		**131,389**	130,260
Treasury shares		**(3,482)**	(3,636)
Foreign currency translation reserve		**20,804**	8,094
Hedging reserve		**(703)**	(655)
Accumulated earnings		**161,587**	243,233
Attributable to equity holders of the parent		**309,595**	377,296
Non-controlling interests		**95,358**	103,465
Total equity		**404,953**	480,761
Non-current liabilities:			
Borrowings	15	**721,006**	664,945
Provision for concession fee on land	16	**5,399**	4,730
Financial liability in respect of Income Units sold to private investors	17	**126,155**	126,704
Other financial liabilities	18,19	**244,818**	228,973
Deferred income taxes	27	**8,472**	7,920
		1,105,850	1,033,272
Current liabilities:			
Trade payables		**6,502**	10,466
Other payables and accruals	20	**51,667**	47,326
Borrowings	15	**36,369**	13,316
		94,538	71,108
Total liabilities		**1,200,388**	1,104,380
Total equity and liabilities		**1,605,341**	1,585,141

The accompanying notes are an integral part of the consolidated financial statements. Date of approval of the financial statements 1 March 2021. 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 **2020** **£'000**	2019 £'000
Revenues	21	**101,787**	357,692
Operating expenses	22	**(110,870)**	(233,024)
EBITDAR		**(9,083)**	124,668
Rental expenses		**(1,004)**	(1,774)
EBITDA		**(10,087)**	122,894
Depreciation and amortisation	4, 5, 19	**(46,624)**	(41,749)
EBIT		**(56,711)**	81,145
Financial expenses	23	**(35,526)**	(32,089)
Financial income	24	**391**	2,923
Other expenses	25a	**(9,736)**	(5,110)
Other income	25b	**10,299**	2,225
Net expenses for financial liability in respect of Income Units sold to private investors	26	**(2,579)**	(10,795)
Share in profit (loss) of joint ventures	6	**(826)**	178
Profit (loss) before tax		**(94,688)**	38,477
Income tax benefit	27	**724**	4,105
Profit (loss) for the year		**(93,964)**	42,582
Profit (loss) attributable to:			
Equity holders of the parent		**(81,731)**	33,915
Non-controlling interests		**(12,233)**	8,667
		(93,964)	42,582
Basic and diluted earnings (loss) per share (in Pound Sterling)	28	**(1.92)**	0.80

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2020 **£'000**	2019 £'000
Profit (loss) for the year	**(93,964)**	42,582
Other comprehensive income (loss) to be recycled through profit and loss in subsequent periods:*		
Loss from cash flow hedges	**(90)**	(423)
Foreign currency translation adjustments of foreign operations	**16,867**	(20,958)
Other comprehensive income (loss)	**16,777**	(21,381)
Total comprehensive income (loss)	**(77,187)**	21,201
Total comprehensive income (loss) attributable to:		
Equity holders of the parent	**(69,069)**	18,580
Non-controlling interests	**(8,118)**	2,621
	(77,187)	21,201

* 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 2019	–	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 (loss)	–	–	–	(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 (see 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
Profit (loss) for the year	**–**	**–**	**–**	**–**	**–**	**(81,731)**	**(81,731)**	**(12,233)**	**(93,964)**
Other comprehensive income (loss) for the year	**–**	**–**	**–**	**12,710**	**(48)**	**–**	**12,662**	**4,115**	**16,777**
Total comprehensive income (loss)	**–**	**–**	**–**	**12,710**	**(48)**	**(81,731)**	**(69,069)**	**(8,118)**	**(77,187)**
Issue of shares	**–**	**870**	**154**	**–**	**–**	**–**	**1,024**	**–**	**1,024**
Share-based payments	**–**	**259**	**–**	**–**	**–**	**85**	**344**	**75**	**419**
Transactions with non-controlling interests (see Note 6)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(64)**	**(64)**
Balance as at 31 December 2020	**–**	**131,389**	**(3,482)**	**20,804**	**(703)**	**161,587**	**309,595**	**95,358**	**404,953**

1 No par value.
2 The dividend distribution in 2019 comprises a final dividend for the year ended 31 December 2018 of 19.0 pence per share and an interim dividend of 17 pence per share paid in 2019. There was no dividend distribution or dividend declaration in 2020.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2020 £'000	2019 £'000
Cash flows from operating activities:			
Profit (loss) for the year		**(93,964)**	42,582
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		**38,105**	42,884
Financial income	24	**(268)**	(2,023)
Income tax benefit	27	**(724)**	(4,105)
Loss on buy-back of Income Units sold to private investors	25	**–**	694
Remeasurement of lease liability	25	**3,369**	3,359
Revaluation of Park Plaza County Hall London Units	25	**2,402**	(923)
Capital loss, net	25	**1,457**	92
Gain from marketable securities	24	**(123)**	(900)
Impairment of property, plant and equipment	5	**2,500**	–
Impairment of Right-of-use assets	19	**2,781**	–
Share in results of Joint Ventures	6	**826**	(178)
Release of provision for litigation	25	**–**	(1,093)
Depreciation and amortisation	4, 5, 19	**41,343**	41,749
Share-based payments		**419**	199
		92,087	79,755
Changes in operating assets and liabilities:			
Decrease in inventories		**143**	68
Decrease (increase) in trade and other receivables		**13,505**	(40)
Increase (decrease) in trade and other payables		**(8,529)**	2,043
		5,119	2,071
Cash paid and received during the period for:			
Interest paid		**(31,412)**	(44,664)
Interest received		**173**	1,412
Taxes paid		**(1,076)**	(1,748)
Taxes received		**365**	743
		(31,950)	(44,257)
Net cash provided by (used in) operating activities		**(28,708)**	80,151
Cash flows from investing activities:			
Acquisition of Hotel 88 Rooms in Belgrade, Serbia	3	**(5,350)**	–
Investments in property, plant and equipment	5	**(57,388)**	(72,422)
Disposal of property, plant and equipment		**317**	–
Investments in Intangible assets	4	**(305)**	–
Proceeds from sale of property	25	**–**	98
Loan to third party		**–**	(591)
Loan to Joint Venture		**(583)**	–
Investment in Joint Venture	6	**(2,207)**	(13,650)
Purchase plot of land nearby Waterloo Station	5	**–**	(12,582)
Decrease (increase) in restricted cash		**(1,613)**	109
Decrease in marketable securities, net		**5,318**	126
Net cash used in investing activities		**(61,811)**	(98,912)

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

	Year ended 31 December	
	2020	2019
	£'000	£'000
Cash flows from financing activities:		
Proceeds from loans and borrowings	**56,948**	9,600
Buy-back of Income Units previously sold to private investors	**–**	(1,622)
Repayment of loans and borrowings	**(7,530)**	(15,455)
Repayment of leases	**(1,567)**	(3,385)
Net proceeds from transactions with non-controlling interest	**(64)**	(3,004)
Refund of cost in connection with prior year transactions with non-controlling interest	**–**	540
Dividend payment	**–**	(15,263)
Dividend payment by a subsidiary	**–**	(1,454)
Net cash provided by (used in) financing activities	**47,787**	(30,043)
Decrease in cash and cash equivalents	**(42,732)**	(48,804)
Net foreign exchange differences	**3,874**	(5,827)
Cash and cash equivalents at beginning of year	**153,029**	207,660
Cash and cash equivalents at end of year	**114,171**	153,029

Non-cash items:		
Lease additions and lease remeasurement	**15,143**	5,946
Outstanding payable on investments in property, plant and equipment	**3,918**	–
Issuance of shares for acquisition of art'otel rights	**1,024**	–

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 2020 were authorised for issuance in accordance with a resolution of the Directors on 1 March 2021.

   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.

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, Hungary and Serbia and hotels, self-catering apartment complexes and campsites in Croatia.

c. Assessment of going concern and liquidity:

   From January 2020, COVID-19 began to spread from China to many countries across the world. The World Health Organization declared the outbreak of the virus a pandemic in March 2020. Governments and authorities across the globe took various measures to mitigate the spread of the virus, primarily by enforcing partial or complete population 'lockdowns', closing geographical borders, temporarily closing businesses and imposing social distancing.

   As a result of these measures, the Group's operations were significantly impacted. In response, the Group took swift action to mitigate the impact of the pandemic, including preserving cash by reducing costs and overheads. Amongst others, the Group has taken the following actions:

Cash flow measures

- Utilisation of the government support schemes available to the business across its markets which it operates in, the COVID-19 Job Retention Scheme in the UK, the Temporary Emergency Measure for Work Retention scheme in the Netherlands, the Kurzarbeit scheme in Germany and the Job Preservation scheme in Croatia. Together, these schemes provided the Group with approximately £24.1 million of support in the year which was recorded as an offset from operating expense in the consolidated income statement.
- Additional government support measures such as the business rates holiday in the UK from 1 April 2020 until 31 March 2021, which amounts to a £1.4 million cash saving per month and deferral of VAT and PAYE.
- Ongoing restructuring programme to ensure the Group's operational structure is fit for purpose and is aligned with guest demand for the short and medium term.
- Deferral of 2019 discretionary staff incentive payments, at an aggregate value of £1.8 million, with such payments reconsidered, if appropriate, in due course.
- Withdrawal of proposed 2019 final dividend payment to shareholders, equating to £8.6 million. In addition, no dividend was declared in 2020.
- Reviewed and reprioritised capex requirements for development pipeline.
- Deferred loan amortisations for 2020 at an aggregated amount of £6.1 million. In addition, after the reporting period, it was agreed with one of the Group's lenders that loan amortisations for 2021 in an aggregated amount of £7.9 million will be deferred.
- Reviewed and reprioritised all areas of discretionary spend, reducing this to business-critical investments only.

Liquidity

- £20 million of new funding secured against Park Plaza London Waterloo, which can be used for the general working capital requirements of the Group (see Note 15b).
- Secured a Dutch government backed COVID-19 go-arrangement term facility of €10 million (see Note 15b).
- Up to £180 million of funding has been secured for the completion of the construction of art'otel london hoxton. This facility also offers the Group the ability to temporarily draw up to £41.1 million, if required, for any cash flow needs the Group may encounter in the short term (see Note 15b).
- Secured a revolving facility for up to £30 million pursuant to the Coronavirus Large Business Interruption Loan Scheme (CLBILS) (see Note 15b).
- Financial covenant testing of existing facilities have been postponed, where appropriate, to 2022 (see Note 15c).

Despite the impact of COVID-19 on trading cash flows, the Group continues to hold a strong liquidity position with an overall consolidated cash balance of £114.2 million as at 31 December 2020 and undrawn cash facilities of £83.4 million.

Since the start of the COVID-19 pandemic multiple cash flow forecasts showing various scenarios have been modelled and reviewed by the Board to provide the basis for strategic actions taken across the business. The Directors have considered detailed cash flow projections for the next three-year period to 31 December 2023 which are constructed on a base case and a downside case basis. The base case assumes a very slow recovery in 2021 with EBITDA levels at approximately 10% of 2019, the 2022 EBITDA at 70% of 2019 and returning to 2019 EBITDA levels in 2023. The downside case assumes zero EBITDA for 2021, the 2022 EBITDA at 50% of 2019 and returning to 2019 EBITDA levels in 2023. These scenarios assume further extension of covenant waivers and refinancing of maturing credit facilities if necessary. Having reviewed those scenarios, the Directors have determined that the Company is likely to continue in business for at least 12 months from the date of approval of the consolidated financial statements without implementing any further protective measures to the operational structure.

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 2020 and 2019 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 2020. 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 judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, 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.

Judgements
In the process of applying the Group's accounting policies, management has made the following judgements, 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.

In determining whether a business was acquired, the Company evaluates whether the acquired integrated set of activities and assets include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. 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.

Note 2 Summary of significant accounting policies continued

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different CGUs, are disclosed and further explained in Notes 4 and 5.

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.

The Group determines that it has acquired a business when the acquired set of activities and assets include an input and a substantive process that together significantly contribute to the ability to create outputs. The acquired process is considered substantive if it is critical to the ability to continue producing outputs, and the inputs acquired include an organised workforce with the necessary skills, knowledge, or experience to perform that process or it significantly contributes to the ability to continue producing outputs and is considered unique or scarce or cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs.

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.

Note 2 Summary of significant accounting policies continued

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.

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.

Note 2 Summary of significant accounting policies continued

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

	As at 31 December	
	2020 In Pound Sterling	2019 In Pound Sterling
Euro	**0.897**	0.852
Hungarian Forint	**0.002**	0.003
Croatian Kuna	**0.119**	0.114
US Dollar	**0.731**	0.760

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

	As at 31 December	
	2020 %	2019 %
Euro	**5.3**	(5.1)
Hungarian Forint	**(4.7)**	(7.6)
Croatian Kuna	**4.0**	(5.4)
US Dollar	**(3.8)**	(0.2)

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.

Note 2 Summary of significant accounting policies continued

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

i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost or 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.

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); and
– 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.

Note 2 Summary of significant accounting policies continued

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 Group recognises an allowance for expected credit loss (ECL) 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.

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.

Note 2 Summary of significant accounting policies continued

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. In 2020 all the income swap agreement have expired.

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.

iii) 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.

Note 2 Summary of significant accounting policies continued

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

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.

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.

Note 2 Summary of significant accounting policies continued

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

The Group accounts for a contract as a lease when the contract terms 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**

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 in-substance 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.

Note 2 Summary of significant accounting policies continued

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 recognised as an expense as incurred when the Company is the lessee, and are recognised as income as earned when the Company is the lessor.

Lease extension and termination options:
A non-cancellable 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 recognised in the carrying amount of the right-of-use asset until it is reduced to zero, and any further reductions are recognised 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 recognises 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.

Note 2 Summary of significant accounting policies continued

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.

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.

Note 2 Summary of significant accounting policies continued

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.

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. Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate. The income from the Government grants is netted off against the related expense account in the income statement.

y. Changes in accounting policies and disclosures

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2020. Several other amendments and interpretations apply for the first time in 2020, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Note 2 Summary of significant accounting policies continued

Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the consolidated financial statements of the Group, but may impact future periods should the Group enter into any business combinations.

Amendments to IAS 1 and IAS 8 Definition of Material

The amendments provide a new definition of material that states, "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of the Group.

Amendments to IFRS 16 COVID-19 Related Rent Concessions

On 28 May 2020, the IASB issued COVID-19-Related Rent Concessions – amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment had no material impact on the consolidated financial statements of the Group.

z. 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 IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- what is meant by a right to defer settlement;
- that a right to defer must exist at the end of the reporting period;
- that classification is unaffected by the likelihood that an entity will exercise its deferral right; and
- that only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Note 2 Summary of significant accounting policies continued

Reference to the Conceptual Framework – Amendments to IFRS 3
In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations – Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

Amendments to IFRS 9, IFRS 7, IFRS 16, IFRS 4 and IAS 39 regarding the IBOR reform
In August 2020, the IASB issued amendments to IFRS 9, "Financial Instruments", IFRS 7, "Financial Instruments: Disclosures", IAS 39, "Financial Instruments: Recognition and Measurement", IFRS 4, "Insurance Contracts", and IFRS 16, "Leases" ("The Amendments"). The Amendments provide practical expedients when accounting for the effects of the replacement of benchmark InterBank Offered Rates (IBORs) by alternative Risk Free Interest Rates (RFRs). Pursuant to one of the practical expedients, an entity will treat contractual changes or changes to cash flows that are directly required by the reform as changes to a floating interest rate. That is, an entity recognizes the changes in interest rates as an adjustment of the effective interest rate without adjusting the carrying amount of the financial instrument. The use of this practical expedient is subject to the condition that the transition from IBOR to RFR takes place on an economically equivalent basis.

In addition, the Amendments permit changes required by the IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued, provided certain conditions are met. The Amendments also provide temporary relief from having to meet the "separately identifiable" requirement according to which a risk component must also be separately identifiable to be eligible for hedge accounting.

The Amendments include new disclosure requirements in connection with the expected effect of the reform on an entity's financial statements, such as how the entity is managing the process to transition to the interest rate reform, the risks to which it is exposed due to the reform and quantitative information about IBOR-referenced financial instruments that are expected to change.

The Amendments are effective for annual periods beginning on or after 1 January 2021. The Amendments are to be applied retrospectively. However, restatement of comparative periods is not required. Early application is permitted.

The Company estimates that the application of the Amendments is not expected to have a material impact on the financial statements.

Note 2 Summary of significant accounting policies continued

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

In May 2020, the IASB issued Property, Plant and Equipment/Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after beginning of the earliest period presented when the Group first applies the amendment. The amendment is not expected to have a material impact on the Group.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "Directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The amendments are not expected to have a material impact on the Group.

IFRS 9 Financial Instruments – Fees in the '10%' test for derecognition of financial liabilities

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The amendments are not expected to have a material impact on the Group.

Note 3 Business combination

Acquisition of 88 Rooms Hotel in Belgrade, Serbia

On 29 December 2020 Arena Hospitality Group d.d., through its wholly-owned subsidiary, has successfully completed the acquisition of 88 Rooms Hotel in Belgrade (the 'Hotel'). The transaction value amounted to HRK 45 million (£5.4 million).

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

	Fair Value £'000
Property, plant and equipment	**5,322**
Intangible assets	**16**
Trade and other receivables	**37**
Trade and other payables	**(25)**
Net assets	**5,350**
Cash flow on acquisition:	
Cash acquired with the subsidiary	**10**
Cash paid	**(5,360)**
Net cash outflow	**(5,350)**

If the acquisition had taken place as of 1 January 2020, 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 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
Cost:					
Balance as at 1 January 2020	**20,391**	**20,846**	**2,532**	**3,128**	**46,897**
Adjustment for exchange rate differences	**1,084**	**1,108**	**119**	**128**	**2,439**
Additions	**–**	**–**	**1,248**	**81**	**1,329**
Disposals	**–**	**–**	**–**	**(6)**	**(6)**
Acquisition of a subsidiary	**–**	**–**	**–**	**16**	**16**
Balance as at 31 December 2020	**21,475**	**21,954**	**3,899**	**3,347**	**50,675**
Accumulated amortisation:					
Balance as at 1 January 2020	**12,689**	**13,084**	**1,645**	**1,443**	**28,861**
Disposals	**–**	**–**	**–**	**(6)**	**(6)**
Amortisation	**1,072**	**1,080**	**132**	**251**	**2,535**
Adjustment for exchange rate differences	**685**	**704**	**89**	**53**	**1,531**
Balance as at 31 December 2020	**14,446**	**14,868**	**1,866**	**1,741**	**32,921**
Net book value as at 31 December 2020	**7,029**	**7,086**	**2,033**	**1,606**	**17,754**

Note 4 Intangible assets continued

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 20 year period based on the terms of the existing contracts and management estimation of their useful life. The remaining amortisation period is 7.5 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 7.5 years.

b. Acquisition of art'otel® rights

In 2007, the Group acquired from CCS Capital Concept Services Gmbh (the 'vendor') 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 7.5 years. In December 2020, the Group acquired certain rights which were assigned to the vendor under the original agreement for a cash consideration of €0.3 million (£0.2 million) and 80,000 shares of the Company. The additional rights are amortised based on management's estimation of their useful life.

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

The recoverable amount of the management and franchise rights had been determined based on internal value in use calculations.

Management rights – The value is use was estimated by applying the income approach. Under the Income Approach, Fair Value is dependent on the present value of future economic benefits to be derived from ownership of an asset.

Franchise Rights – The value in use was estimated by applying the Relief from Royalties Approach, a common and accepted valuation technique used to estimate the Fair Market Value of franchise rights. This method assumes that if the subject intangible assets were not already available, a market royalty rate would have to be paid on the development and use of comparable alternative intangible assets. An assumption of 6% royalty fee saving was used both for the Park Plaza® Hotels & Resorts and art'otel franchise rights.

Given the adverse effect that COVID-19 had on the hospitality sector, management assumed that cash flow from management fees and royalty fee saving will slowly recover during 2021, a further gradual improvement in 2022 and returning to 2019 levels in 2023. The discount rate applied to the cash flow projections for both the management and franchise rights was set at 10% which includes a risk premium on top of the Group WAAC. Based on this analysis it was concluded that there is no need for 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 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
Cost:						
Balance as at 1 January 2020	**315,743**	**661,672**	**14,410**	**137,789**	**206,221**	**1,335,835**
Additions during the year	**1,034**	**14,482**	**10,975**	**410**	**34,388**	**61,289**
Disposal	**–**	**(3,065)**	**–**	**–**	**(2,859)**	**(5,924)**
Acquisition of subsidiaries	**30,089**	**4,697**	**3,826**	**–**	**223**	**38,835**
Reclassification	**2**	**5,857**	**(5,473)**	**–**	**(386)**	**–**
Adjustment for exchange rate differences	**7,063**	**15,873**	**357**	**–**	**3,278**	**26,571**
Balance as at 31 December 2020	**353,931**	**699,516**	**24,095**	**138,199**	**240,865**	**1,456,606**
Accumulated depreciation and impairment:						
Balance as at 1 January 2020	**7,361**	**82,706**	**–**	**21,278**	**110,829**	**222,174**
Provision for depreciation	**329**	**13,744**	**–**	**1,157**	**16,149**	**31,379**
Disposal	**–**	**(1,543)**	**–**	**–**	**(2,607)**	**(4,150)**
Reclassification	**699**	**169**	**–**	**–**	**(868)**	**–**
Impairment	**2,500**	**–**	**–**	**–**	**–**	**2,500**
Adjustment for exchange rate differences	**154**	**1,857**	**–**	**–**	**1,334**	**3,345**
Balance as at 31 December 2020	**11,043**	**96,933**	**–**	**22,435**	**124,837**	**255,248**
Net book value as at 31 December 2020	**342,888**	**602,583**	**24,095**	**115,764**	**116,028**	**1,201,358**

* This includes 504 rooms ('Income Units') (2019: 504) 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).

a. For information regarding liens, see Note 14.

Note 5 Property, plant and equipment continued

b. Impairment

The recoverable amount of property, plant and equipment had been determined based on third party valuations received for 31 December 2020. Given the adverse effect that COVID-19 had on the hospitality sector, the third party valuers assumed that cash flow from operations will slowly recover during 2021, a further gradual improvement in 2022 and returning to 2019 levels in 2023 or 2024 for some properties. The discount rates applied to cash flow projections was determined by the third party valuator and ranges between 7.25%-11%. In 2020, the Group recorded an impairment loss in respect of one property in the UK segment in the amount of £2.5 million, which is included in depreciation, amortisation and impairment loss.

c. Capitalised borrowing costs

On 7 April 2020 the Group entered into a building contract to develop art'otel london hoxton on a site located by Old Street, Rivington Street, Great Eastern Street and Bath Place, London EC1 which is expected to be completed in February 2024 (see Note 30 c (i)). The Cumulative expenditure for this project as at 31 December 2020 was £37.1 million (2019: £15.9 million).

The amount of borrowing costs capitalised related to this project during the year ended 31 December 2020 was £0.6 million (2019: Nil). The rate used to determine the amount of borrowing costs eligible for capitalisation was LIBOR +3.55%, which is the effective interest rate (EIR) of the specific borrowing.

d. Acquisitions:

Acquisition of the remaining interest in the joint venture in New York City

In January 2020 the Group acquired, from its joint venture partner, its 50% interest in W29 Development LLC, a Delaware limited liability company (the 'JV Company'), for a total consideration of US$3.3 million (£2.2 million) plus associated acquisition costs (see also Note 6b). As a result, the Company now owns 100% of the JV Company and the associated joint venture arrangements have been terminated. The acquisition, which was funded from the Company's existing cash resources has been accounted for as an acquisition of land in the amount of £33.5 million and assumption of related mortgage in the amount of £16.8 million.

Settlement with the Republic of Croatia related to, and the acquisition of, Guest House Hotel Riviera Pula

Arena has been operating Guest House Hotel Riviera ('Riviera') in Pula for decades and has been in discussions with the Croatian Ministry of State Assets to formalise the informal arrangement and acquire the property. Further to legal proceedings initiated by the Republic of Croatia against Arena for repossession of the property and compensation, Arena received the decision of the Government of the Republic of Croatia to enter into a proposed settlement offer for the aforementioned court dispute for Riviera. Based on the settlement entered into on 28 April 2020, Arena compensated the State for the previous use of the property with an amount of HRK 13.9 million (£1.6 million) and was entitled to buy Riviera as its rightful longstanding possessor. On 2 June 2020, Arena signed the sale and purchase agreement for Riviera with the Republic of Croatia for an amount of HRK 36.5 million (£4.4 million). The purchase concludes the ownership status of this hotel.

Acquisition of the North Lambeth site

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	
	2020 £'000	2019 £'000
Loans to joint ventures*	**5,066**	11,720
Share of net assets under equity method	**(325)**	6,431
Investment in joint ventures	**4,741**	18,151

* 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.

The share in net loss amounts to £(826) thousand (2019: net profit of £178 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 Hotel Group 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 Hotel Group have delivered certain customary guarantees in favour of the Lender.

The total cash contributed by PPHE Hotel Group 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 Hotel Group of US$9.2 million (£7.2 million) is considered as a member loan which bears 8% interest (the 'member loan').

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

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 (£2.2 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.

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

During 2020 Arena purchased 1,422 shares, as part of its share buyback programme, for a consideration of HRK 0.5 million (£63 thousand). As a result of this transaction the Group's share in Arena increased to 52.95% (2019: 52.93%)

The amount of loss and comprehensive loss allocated to the non-controlling interests in 2020 amounts to £12,233 thousand (2019: profit of £8,667 thousand) and £8,118 thousand (2019: profit of £2,621 thousand) respectively.

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

Below is selected financial information relating to Arena, as of 31 December 2020 and 2019, and for the years ended 31 December 2020 and 2019.

	2020 £'000	2019 £'000
Non-current assets	**328,687**	288,081
Current assets	**55,464**	87,054
Non-current liabilities	**159,649**	135,158
Current liabilities	**21,723**	19,762
Revenue	**28,129**	91,844
EBITDA	**(2,158)**	27,098
(Loss) profit for the period	**(26,292)**	18,130
Total comprehensive income	**(17,544)**	5,526

Note 7 Other non-current assets

a. Non-current financial assets

	As at 31 December	
	2020 £'000	2019 £'000
Income swap in respect of Income Units sold to private investors[1]	**–**	310
Income Units in Park Plaza County Hall London[2]	**15,350**	17,600
Rent security deposits	**370**	351
Other non-current assets	**238**	97
	15,958	18,358

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. As at 31 December 2020 all the swap agreements have expired.

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 the 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 reporting date was £15.4 million based on an independent valuation prepared by Savills using a cap rate of 6%.

Note 8 Trade receivables

a. Composition:

	As at 31 December	
	2020	2019
	£'000	£'000
Trade receivables	**4,177**	13,635
Less – allowance for doubtful debts	**(704)**	(877)
	3,473	12,758

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 2019	(364)
Write-off	290
Additions	(826)
Exchange rate differences	23
As at 31 December 2019	(877)
Write-off	**243**
Additions	**(42)**
Exchange rate differences	**(28)**
As at 31 December 2020	**(704)**

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

			Past due			
	Total	Not past due	< 30 days	31 to 60 days	61 to 90 days	> 90 days
2020	£'000	£'000	£'000	£'000	£'000	£'000
Trade Receivables	**4,177**	**2,702**	**378**	**59**	**69**	**969**
Allowance for doubtful debts	**(704)**					**(704)**
	3,473	**2,702**	**378**	**59**	**69**	**265**

			Past due			
	Total	Not past due	< 30 days	31 to 60 days	61 to 90 days	> 90 days
2019	£'000	£'000	£'000	£'000	£'000	£'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

Note 9 Other receivables and prepayments

	As at 31 December	
	2020	2019
	£'000	£'000
Prepaid expenses	**5,389**	7,396
VAT	**1,103**	6,310
Related parties*	**–**	295
Others	**1,552**	1,064
	8,044	15,065

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

Note 10 Other current financial assets

	As at 31 December	
	2020	2019
	£'000	£'000
Investment in marketable securities*	**27**	5,221

* 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 2020, the number of ordinary shares issued was 44,347,410 (2019: 44,347,410), 1,808,070 of which were held as treasury shares (2019: 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. On 22 December 2020, the Company issued 80,000 of its ordinary shares from its treasury account at a price of 1,280 pence per share. The total number of treasury shares is 1,808,070.

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

The Company operates two option plans for the benefits of employees of the Group, the first was adopted in 2007 and the second was adopted in 2020.

2007 Option Plan

The 2007 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.

As at 31 December 2020, there were 412,290 options outstanding under the 2007 Option Plan. These options were granted to employees of the Company in past years. No further grants can be made under this Plan.

2020 PPHE Executive Share Option Plan

The Board has adopted a ''2020 PPHE Executive Share Option Plan'', under which employees of the Company and its subsidiaries receive remuneration in the form of share-based compensation. The Plan has the following principal terms:

a. The Plan has four types of options:

Option A: market value options – options that are linked to the market value of the shares in the Company;

Option B: salary-related options – whereby employees agree to a reduction in their base salary in exchange for the right to acquire Shares at nil-cost. These options normally vest after 12 months subject to an additional six-month holding period;

Option C: deferred bonus awards – allowing the award of the number of shares determined by the Remuneration Committee in lieu of some or all of the annual bonus; and

Option D: performance share awards – options which are granted subject to specified performance targets. Notwithstanding the extent to which any performance target is satisfied, the number of vested award shares may be reduced by the Committee to ensure that the number of vested award shares is appropriate taking into account the underlying business performance of the Group.

Note 13 Share-based payments continued

These awards are subject to the rules of the PPHE Executive Incentive Plan 2020 which may include: long-term vesting periods prescribed by the Committee upon grant; good-leaver and bad leaver provisions allowing the Committee to exercise discretion as to when it might be appropriate for an award to vest in spite of the relevant employee leaving the Group; post-vesting holding periods determined by the Committee at the time of the award; performance conditions; and share capital dilution limits. The plan allows dividends or dividend equivalents to accrue, subject to the Committee's discretion.

b. At any time, the total number of shares issued and/or available for grant (in a ten-year period) under the 2007 Share Option Plan, the 2020 PPHE Executive Incentive Plan and under any other employee share scheme which the Company may establish in the future may not exceed 5 per cent. of the Company's issued share capital at that time.

c. In November 2020, the Remuneration Committee approved the grant of 70,706 salary related options (Option B under the 2020 Option plan) with a nil exercise price and 714,000 market-value options (Option A under the 2020 Option plan) with an exercise price of 1,300 pence (being the closing price on 10 November 2020). In particular, the salary-related awards that were offered to key employees in 2020 were aimed at preserving cash flow, whilst incentivising key employees to support the Group in its recovery from the pandemic and linking in with our succession planning. The salary-related options have a vesting period of 12 months with a six months holding period. With regard to the market-value share options granted in 2020, 300,000 shall vest in equal tranches, with 33.33% vesting each year for three years and 414,000 shell vest at the end of three years from the grant date.

The following lists the inputs to the binomial model used for the fair value measurement of the 714,000 market-value share options granted:

Dividend yield	0%
Expected volatility of the share prices	38.51%
Risk-free interest rate	–0.0412%
Expected life of share options	4.4 years
Weighted average share price at the grant date	1,300.0 pence
Fair value per option	407.0 pence

The following lists the inputs to the binomial model used for the fair value measurement of the 70,706 salary related share options granted:

Dividend yield	0%
Expected volatility of the share prices	38.51%
Risk-free interest rate	–0.0412%
Expected life of share options	4.4 years
Weighted average share price at the grant date	1,300.0 pence
Fair value per option	1,300.0 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. The expense arising from equity-settled share-based payment transactions during 2020 was £259 thousand (2019: £199 thousand). Total exercisable options at 31 December 2020 amounted to 352,242 (2019: 268,624).

Note 13 Share-based payments continued

Movements during the year

The following table illustrates the number (No.) and weighted average exercise prices (EP) of, and movements in, share options during 2019 and 2020:

	No. of options A (2007 Option plan)	No. of options A (2020 Option plan)	No. of options B (2020 Option plan)	EP
Outstanding as at 1 January 2019	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
Options forfeited during the year	**–**	**–**	**–**	**–**
Options exercised in the year*	**–**	**–**	**–**	**–**
Options granted during the year	**–**	**714,000**	**70,706**	**£11.83**
Outstanding as at 31 December 2020	**412,290**	**714,000**	**70,706**	**£11.05**

* Part of the exercise was cashless.

As at 31 December 2020 the number of exercisable options was 352,242 (2019: 268,623) with an EP of £8.30 (2019: £7.06).

The weighted average remaining contractual life for the share options outstanding as at 31 December 2020 is 8.5 years (2019: 7 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 £7 million and are presented as restricted in the financial statements.

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 2020, the Company had no capital commitments amounting to £150.4 million for the construction of the development of art'otel london hoxton.

(iii) Guarantees

1. 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.

Note 14 Pledges, contingent liabilities and commitments continued

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 2020, 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). The Company is still waiting to see if and when UOB will initiate legal proceedings.

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.

2. 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.

3. 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.

4. 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 US$ 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 US$ 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 2020	€ denominated £'000	£ denominated £'000	$ denominated £'000	HRK denominated £'000	Total £'000
Fixed interest rate	**237,798**	**420,540**	**–**	**26,816**	**685,154**
Weighted average interest rate	**2.22%**	**3.61%**	**–**	**1.94%**	
Variable interest rate	**21,845**	**41,550**	**16,183**	**–**	**79,578**
Weighted average interest rate	**1.83%**	**3.27%**	**3.50%**	**0.00%**	
Total	**259,643**	**462,090**	**16,183**	**26,816**	**764,732**
Weighted average interest rate	**2.19%**	**3.58%**	**3.50%**	**1.94%**	**3.05%**

Maturity analysis 2020	Outstanding amount	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
Total borrowings	**764,732**	**36,969**	**22,582**	**25,720**	**46,042**	**19,705**	**613,714**
Capitalised transaction costs and other adjustments	**(7,357)**	**(600)**	**(600)**	**(600)**	**(600)**	**(600)**	**(4,357)**
	757,375	**36,369**	**21,982**	**25,120**	**45,442**	**19,105**	**609,357**

For securities and pledges, see Note 14.

Note 15 Borrowings continued

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.

b. Finance agreements entered in the period:

PPHE Living Limited financing agreement
On 29 January 2020, PPHE Living Limited, a wholly-owned subsidiary of the Company, entered into a 5-year loan agreement with Santander UK Plc for a facility of £1.64 million which is secured against the Old Bakery, a property purchased to provide staff accommodation. The loan is at a fixed rate of 2.25%. As at 31 December 2020 this facility was fully drawn.

art'otel london hoxton financing
On 7 April 2020, the Group entered into a bilateral loan agreement with Bank Hapoalim B.M. for a facility of up to £180 million to fund the development of art'otel london hoxton (the 'Hotel') on a site located by Old Street, Rivington Street, Great Eastern Street and Bath Place, London EC1 (the 'Site').

The initial maturity date of the facility is April 2024 with provisions, subject to certain conditions, to extend the Facility by two periods of three years each. The Facility bears an initial interest rate margin of 3.55% over LIBOR. The margin decreases to 2.95% following two consecutive quarters after practical completion of the Hotel. In addition, there is a fee for unutilised amount of 0.25%. As at 31 December 2020 £27.3 million was drawn from this facility.

The Facility contains customary debt service cover and loan to value financial covenants, applicable following practical completion of the Hotel, which must be complied with, subject to an ability to cure in certain circumstances through the injection of equity or prepayment (to the extent necessary) of the Facility.

The Facility is secured by, among other things; mortgages over the ownership interests in the Site and security over the shares in certain group companies that own such interests in the Site. The lenders benefits from completion and cost overrun guarantees provided by the Company.

Waterloo Hotel Holding B.V. financing agreement
On 23 June 2020 Waterloo Hotel Holding B.V., a wholly-owned subsidiary of the Company, entered into a three-year, £20 million financing agreement with Santander UK Plc which bears an interest rate margin of 2.4% plus LIBOR. As at 31 December 2020 £5.3 million was drawn from this facility.

Guest House Hotel Riviera financing
On 7 July 2020 Arena entered into a new loan agreement with OTP banka d.d. in Croatia for the purchase and refurbishment of Guest House Hotel Riviera. The facility is in a total amount of €10 million (£9.1 million), maturing in 2030 at a fixed interest rate of 2.125%. As at 31 December 2020 €5 million (£4.4 million) was drawn from this facility.

Park Plaza Hotels Europe B.V. facility
On 7 August 2020 Park Plaza Hotels Europe B.V., a wholly-owned subsidiary of the Company, entered into a three-year, €10 million (£9.1 million), Dutch government backed COVID-19 go-arrangement financing agreement with ABN AMRO Bank N.V. which bears an interest rate of 2.9% plus EURIBOR per annum. As at 31 December 2020 this facility was fully drawn.

Park Plaza Hotels (UK) Limited facility
On 10 November 2020, Park Plaza Hotels (UK) Limited, a wholly-owned subsidiary of the Company, entered into a revolving facility agreement with Santander UK Plc for up to £30 million pursuant to the Coronavirus Large Business Interruption Loan Scheme (CLBILS). The facility is provided on a three-year term and bears an interest rate margin on drawn amounts of 2.5% plus LIBOR during year one, with the margin increasing to 3% in years two and three. As at 31 December 2020 £2.5 million was drawn from this facility.

Note 15 Borrowings continued

Hotel Brioni Pula financing agreement

On 8 December 2020 Arena entered into a new loan agreement with Erste Banka d.d. and Zagrebačka Banka d.d. in Croatia for the purpose of financing the refurbishment of Hotel Brioni Pula. The facility is in a total amount of €24 million (£21.5 million), maturing in 2033 at a fixed interest rate of 2.6%. As at 31 December 2020 the loan remained undrawn.

88 Rooms Hotel in Belgrade, Serbia financing

On 17 December 2020 Arena entered into a new loan agreement with AIK Banka a.d. for the purchase of 88 Rooms Hotel in Belgrade, Serbia. The facility is in a total amount of €4.2 million (£3.8 million), maturing in 2025 at a fixed interest rate of 4.3%. As at 31 December 2020 the loan was fully drawn.

c. 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 (LTV). In addition, the borrowers must ensure that, on each interest payment date, the Debt Service Coverage Ratio (DSCR) is not less than 115%. In May 2020, the Group received a letter from the bank confirming that the financial covenant testing will be postponed to 30 June 2021 and the loan amortisation for Q2 – Q4 2020 will be deferred to years 2021-2022. After the reporting period, the Group received from the bank a waiver for the DSCR and the LTV covenants until 30 June 2022 (inclusive) with the first test due in July 2022 based on the results for 30 June 2022. In addition the loan amortisation for 2021 will be deferred to 2022.

(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 (LTV). 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 £6.3 million (as at 31 December 2020) has an associated interest rate cap, hedging the risk of the all-in rate exceeding 3.5%. In May 2020, the Group received from the bank a waiver for the DSCR covenants until 30 April 2021 (inclusive) with the first test due in July 2021 based on the results for 30 June 2021. After the reporting period, the Group received from the bank a waiver for the DSCR and the LTV covenants until 30 April 2022 (inclusive) with the first test due in July 2022 based on the results for 30 June 2022.

(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 (LTV). In addition, the borrower must ensure that, on each interest payment date, the historical and projected DSCR are not less than 180%. In July 2020, the Group received from the bank a waiver for the DSCR covenants until 20 July 2021 based on the results for 30 June 2021. After the reporting period, the Group received from the bank a waiver for the DSCR and the LTV covenants until 19 July 2022 with the first test due on 20 July 2022 based on the results for 30 June 2022.

(iv) Under the Bank Hapoalim 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 (LTV). 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. In June 2020, the Group received a letter from the bank confirming that the historical debt service cover covenant testing will be postponed to 30 September 2021 and the loan amortisation for Q2-Q3 2020 will be postponed to the termination date of the loan. After the reporting period, the Group received from the bank a waiver for the DSCR and the LTV covenants until 30 March 2022 with the first test due on 30 April 2022 based on the results for 31 March 2022. In addition, it was agreed that the DSCR covenant for 31 March 2022 and 30 June 2022 will be set at 110% and will be tested over a period of six and nine months respectively.

(v) In March 2019, W29 Owner LLC entered into a Loan agreement with Bank Hapoalim New York for an amount of US$22.15 million where PPHE Hotel Group is a guarantor. Under this agreement, PPHE Hotel Group must ensure that it maintains an aggregate net worth of at least US$33 million and have liquid assets with a market value of at least US$5 million. In February 2020, the Group exercised the extension option in this facility to extend the maturity date for a year till March 2021.

(vi) Under the Bank Hapoalim loan relating to art'otel london hoxton, 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 from 7 April 2022 onwards. The borrower must also ensure that the DSCR is not less than 1.2 on each quarter test date starting from either 7 April 2025 or one year after practical completion. Any breach of the aforementioned covenants is subject to an equity cure option. In addition, on each parent guarantor test date, the total equity of PPHE Hotel Group must not be less than: (i) £150 million; and (ii) 20% of its asset value.

(vii) Under the £20 million financing agreement entered into by Waterloo Hotel Holding B.V. with Santander UK Plc on 23 June 2020, the borrower must ensure that the amount of the outstanding loan does not exceed 40% of the value of Park Plaza London Waterloo based on the most recent valuation. The DSCR must also not be less than 125% on each quarter with first test date being 30 September 2021.

Note 15 Borrowings continued

(viii) Under the loan agreement granted by Santander UK Plc to Park Plaza Hotels (UK) Limited pursuant to the Coronavirus Large Business Interruption Loan Scheme (the 'CLBILS Facility'), the borrower must ensure that at all times its tangible net worth exceeds £300 million. In addition, the borrower must: (i) ensure that the UK borrowings to aggregate UK asset value does not at any time exceed 60 %; (ii) ensure that on each test date, the UK interest cover ratio for the borrower and its subsidiaries is greater than 1.25 with first test date being 31 December 2021; (iv) in the event that the Waterloo facility referred to above at paragraph xii is repaid or cancelled, ensure that the aggregate market value of all hotels unencumbered by any security (determined in accordance with the most recent valuation of such hotels) is at least two times the amount of the total commitments under the CLBILS Facility; and (v) maintain minimum liquidity of £3 million at all times.

(ix) Under the £1.64 million loan granted by Santander UK Plc to PPHE Living Limited dated 29 January 2020, the ICR for each 12-month period must not be less than 125%. In addition, the borrower must ensure that the outstanding loan does not exceed 65% of the value of the borrower's freehold property at Acton Lane (based on the most recent valuation).

(x) 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%. In September 2020, the Group received a letter from the bank confirming that all financial covenant testing will be postponed to 31 December 2022 and the loan amortisation for Q2-Q3 2020 will be postponed to 31 December 2021.

(xi) 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%. In September 2020, the Group received a letter from the bank confirming that all financial covenant testing will be postponed to 31 December 2022 and the loan amortisation for Q2-Q3 2020 will be postponed to 31 December 2021.

(xii) 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 Debt/EBITDA ('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. In November 2020, the Group received a letter from the bank confirming waiver of the net leverage ratio for 2020.

(xiii) 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. In December 2020, the Group received a letter from the bank confirming waiver of the net leverage ratio for 2020.

(xiv) 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 three times EBITDA and net leverage which is equal to or lower than 7.0 at year end 2022 and equal or lower than 4.5 thereafter. The first covenant test will be based on the annual audited consolidated financial statements for 2022 and is due by the end of June 2023.

(xv) Under the Erste Banka d.d. and Zagrebačka Banka d.d. facility for the purpose of financing the refurbishment of Hotel Brioni Pula in the total amount of €24.0 million, the borrower has to comply with the following consolidated covenants, tested once a year using audited financial statements for the preceding year: DSCR 1, which includes the cash opening balance for the year, is equal to or greater than 3.0 until 2022 and 3.5 from 2023 onwards. DSCR 2, which excluding cash, is equal or greater than 1.2 throughout the life of the loan. Net leverage ratio is equal to or lower than 4.5, the testing of which starts for the 2023 financial year end and onwards. The amount of the loan cannot exceed 70% of the property used as collateral. The withdrawal of the loan is also subject to a deposit of up to €7.0 million, which has a release mechanism embedded subject to certain defined conditions. The net assets test has to be at least 30%.

(xvi) Under the OTP Banka d.d. facility for the purpose of financing the purchase and subsequent refurbishment of Guest House Hotel Riviera, Pula in the total amount of €10.0 million the borrower has to comply with the following standalone covenants, tested once a year using audited financial statements for the preceding year: net leverage ratio is equal to or lower than 6.0 at year end 2021 and equal to or lower than 4.5 at year end 2022 and onwards. The net assets test has to be at least 55%. The loan consists of two equal tranches in the amount of €5.0 million each. The loan has a deposit build up mechanism, subject to certain conditions. Arena cannot pay dividend until year end 2021 (and in line with the contractual limitations for entities that used Government support during the pandemic) and a dividend basket of HRK 25.0 million until year end 2022. No limitations on profit distribution thereafter.

(xvii) Under the AIK Banka a.d. facility for the purpose of financing the purchase of 88 Rooms Hotel in Belgrade, Serbia in the total amount of EUR 4.2 million the borrower (Arena 88 Rooms Holding d.o.o.) has to ensure that the value of the purchased asset is not lower by more than 35% when compared to the value of the asset as defined during 2020 by an external reputable valuator.

As at 31 December 2020, taking into account all the covenant waivers received, the Group is in compliance with all of its banking covenants.

Note 16 Provisions

Provision for concession fee on land

In accordance with the provisions of the Tourist and Other Construction Land Not Appraised During the Transition and Privatisation Process Act from 2010 (the TLA), Arena submitted requests to the Republic of Croatia and the relevant municipality for the award of tourist land concessions in relation to land areas in eight campsites and three tourist resorts in Croatia. The TLA failed to produce the desired impact and to resolve the issues of the ownership/use of the tourist land. This in turn caused far reaching consequences in the form of lack of investments into tourist land, reduced international competitiveness of Croatian tourism due to lack of development and reduced income of the state and local municipalities. The Croatian government therefore adopted a new legislation to deal with, inter alia, the so-called tourist land and proprietary relationships between the owner of such land and the owner of the facilities built thereon.
In May 2020, the new Non-Appraised Construction Land Act (the NCLA) replaced the TLA and all initiated requests based on the TLA were suspended. Pursuant to the NCLA, the ownership of the land underneath the facilities in the campsites that were assessed into the share capital of Arena is now also legally recognised as ownership of Arena, while the Republic of Croatia will be the sole owner of the other land in the campsites. In respect to the tourist resorts, the ownership of the land underneath the facilities that have been assessed into the share capital of Arena is now also recognized as ownership of Arena, together with the land surrounding such facilities that makes (together with the relevant facilities) the technological and functional unity. Tourist land in the tourist resorts which was not assessed into the share capital of Arena and which serves the standard usage of the resorts shall be owned by a local municipality.
In relation to the land in campsites owned by the Republic of Croatia and the land in tourist reports owned by the local municipalities, Arena will ex lege be deemed long-term (50 years) lessee and will conclude the lease agreement with the state/local municipalities once the procedure envisaged by the NCLA will be complete. However, the Government has still not adopted the secondary level regulation that would govern the rent payable by the lessees for such lease nor have the procedures required for the implementation of the Act and actual registration of the ownership over the respective part of land in campsites/tourist resorts been completed. This creates uncertainties in relation to the current and future assets and obligations of Arena. While the TLA was still applicable, Arena paid 50% of the concession fees in respect of the eight campsites and accrued the remaining 50% until entering into the envisaged concession agreements. As the new NCLA has not yet set the rules for the rent payable based on the lease agreement, Arena kept the same accrual and provisioning model. The provisions are visible in the Company's statement of financial position.

	2020	2019
	£'000	£'000
Balance as at 1 January	**4,730**	4,330
Additions	**476**	652
Exchange rate differences	**193**	(252)
Balance as at 31 December	**5,399**	4,730

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

	2020	2019
	£'000	£'000
Total liability	**143,760**	143,268
Due from investors for reimbursement of capital expenditure	**(17,605)**	(16,564)
	126,155	126,704

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.

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

Note 18 Other financial liabilities

	As at 31 December	
	2020 £'000	2019 £'000
Derivative financial instruments	**879**	674
Lease liabilities (see Note 19)	**243,650**	227,998
Other	**289**	301
	244,818	228,973

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
Cost:					
Balance as at 1 January 2020	**85,541**	**117,965**	**8,791**	**23,873**	**236,170**
Additions during the year	**–**	**12,612**	**2,565**	**–**	**15,177**
Disposal	**–**	**–**	**(366)**	**–**	**(366)**
Remeasurement of right-of-use assets	**–**	**–**	**–**	**–**	**–**
Adjustment for exchange rate differences	**1,152**	**(112)**	**54**	**–**	**1,094**
Balance as at 31 December 2020	**86,693**	**130,465**	**11,044**	**23,873**	**252,075**
Accumulated depreciation and impairment:					
Balance as at 1 January 2020	**4,470**	**4,948**	**924**	**7,838**	**18,180**
Provision for depreciation	**462**	**3,406**	**1,198**	**2,398**	**7,464**
Impairment	**–**	**2,781**	**–**	**–**	**2,781**
Disposal	**–**	**–**	**(197)**	**–**	**(197)**
Adjustment for exchange rate differences	**2**	**49**	**3**	**–**	**54**
Balance as at 31 December 2020	**4,934**	**11,184**	**1,928**	**10,236**	**28,282**
Net book value as at 31 December 2020	**81,759**	**119,281**	**9,116**	**13,637**	**223,793**

The amount of borrowing costs capitalised during the year ended 31 December 2020 was £206 thousand (2019: Nil).

Note 19 Leases continued

Impairment

The Group performed impairment test in December 2020 for all individual Right-of-use asset where indication loss occurred. Each asset had been tested on Cash Generating Unit level (CGU-level).

The discount rate applied to cash flow projections was 9%. Impairment loss has been recognised for the Right-of-use asset where carrying amount exceeded recoverable amount. The impairment loss in the amount of £2,781 thousand is recorded within Depreciation, amortization and impairment expenses in the income statement.

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

	2020 £'000	2019 £'000
As at 1 January	**231,594**	227,078
Additions	**14,671**	1,037
Disposals	**(174)**	(458)
Accretion of interest[1]	**9,542**	9,146
Payments	**(6,898)**	(12,501)
Remeasurement of lease liability recorded in other expenses	**3,369**	3,359
Remeasurement of lease liability adjusted against Right-of-use assets	**–**	4,909
Exchange rate differences recorded in Profit & Loss	**2,073**	(30)
Adjustments for foreign exchange differences	**(133)**	(946)
As at 31 December	**254,044**	231,594
Current	**10,394**	3,596
Non current	**243,650**	227,998

[1] The amount of borrowing costs capitalised during the year ended 31 December 2020 was 206 thousand (2019: Nil).

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 45 years (2019: 35 years) ('short-term leases').

	Year ended 31 December 2020 £'000		
	Long term leases (>100)	**Short term leases (<35)**	**Total**
Lease liabilities	**198,366**	**55,678**	**254,044**
Fixed lease payments	**3,591**	**3,307**	**6,898**
Accretion of interest	**8,388**	**1,154**	**9,542**
Depreciation	**3,673**	**3,756**	**7,429**

	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

Note 19 Leases continued

Details regarding certain long term lease agreements are as below:

(a) On 29 January 2020 the Group through its subsidiary Arena Hospitality Group d.d. ('Arena') 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 historic 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.

(b) Grandis Netherlands Holding B.V. ('Grandis') has a land leasehold interest, expiring in 2095, of Holmes Hotel 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.

(c) 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 lease liability.

(d) 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.

(e) 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	
	2020 £'000	2019 £'000
Depreciation expense and impairment of right-of-use assets	**10,210**	7,949
Interest expense on lease liabilities	**9,336**	9,146
Expense relating to low-value assets and short-term leases (included in operating expenses)	**220**	248
Expense relating to low-value assets and short-term leases (included in rent expenses)	**370**	331
Variable lease payments (included in rent expenses)	**634**	1,443
Total amount recognised in profit or loss	**20,770**	19,117

The Group had total cash outflows for leases of £8,122 thousand in 2020 (2019: £14,553 thousand).

The following provides information on the Group's variable lease payments, including the magnitude in relation to fixed payments in 2020 and 2019:

	As at 31 December 2020		
	Fixed payments £'000	**Variable payments £'000**	**Total £'000**
Fixed rent	**5,859**	**–**	**5,859**
Variable rent with minimum payment	**1,039**	**(1)**	**1,038**
Variable rent only	**–**	**635**	**635**

	As at 31 December 2019		
	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	
	2020	2019
	£'000	£'000
Current portion of lease liabilities	**10,394**	3,596
Employees	**3,049**	2,991
VAT and taxes	**11,987**	10,888
Accrued interest	**3,009**	3,087
Corporate income taxes	**541**	1,408
Accrued expenses	**8,768**	10,908
Advance payments received	**7,426**	10,391
Accrued rent	**1,414**	835
Variable income payment to holders of Income Units	**2,226**	3,222
Related parties*	**2,853**	–
	51,667	47,326

* See Note 30.

Note 21 Revenues

	Year ended 31 December	
	2020	2019
	£'000	£'000
Rooms	**63,628**	250,608
Campsites and mobile homes	**7,815**	17,584
Food and beverage	**21,050**	75,363
Minor operating	**5,662**	7,102
Management fee (see Note 14(c)(i))	**418**	2,467
Franchise and reservation fee (see Note 14(c)(i))	**819**	1,734
Marketing fee	**203**	852
Other	**2,192**	1,982
	101,787	357,692

Note 22 Operating expenses

	Year ended 31 December	
	2020	2019
	£'000	£'000
Salaries and related expenses	**74,746**	107,146
Franchise, reservation and commissions expenses (see Note 14(c)(i))	**9,255**	27,830
Food and beverage	**4,923**	18,171
Insurance and property taxes	**9,841**	17,937
Utilities	**6,954**	11,126
Administration costs	**4,569**	7,812
Maintenance	**4,293**	6,937
Laundry, linen and cleaning	**1,862**	5,039
Supplies	**1,704**	4,481
IT expenses	**1,374**	1,673
Communication, travel and transport	**1,288**	2,637
Marketing expenses	**1,374**	2,308
Government grants	**(24,076)**	–
Defined contribution pension premiums	**3,121**	3,980
Other expenses	**9,642**	15,947
	110,870	233,024

Note 23 Financial expenses

	Year ended 31 December	
	2020 **£'000**	2019 £'000
Interest and other finance expenses on bank loans	**23,408**	22,768
Interest on lease liabilities	**9,336**	9,146
Foreign exchange differences, net	**2,395**	112
Expense from Park Plaza County Hall London Units	**8**	–
Other	**379**	63
	35,526	32,089

Note 24 Financial income

	Year ended 31 December	
	2020 **£'000**	2019 £'000
Income from Park Plaza County Hall London Units	**–**	1,057
Interest on bank deposits	**132**	395
Gain from marketable securities	**123**	900
Interest and other financial income from jointly controlled entities (see Note 30(b))	**136**	571
	391	2,923

Note 25 Other income and expenses

a. Other expenses

	Year ended 31 December	
	2020 **£'000**	2019 £'000
Capital loss on buy-back of Income Units previously sold to private investors	**–**	694
Government settlement purchase of Guest House Hotel Riviera Pula (see Note 5d)	**1,544**	–
Remeasurement of lease liability*	**3,369**	3,359
Revaluation of Income Units Park Plaza County Hall London (see Note 7)	**2,402**	–
Loss on disposal of property, plant and equipment	**1,774**	301
Other non-recurring expenses (including pre-opening expenses)	**647**	756
	9,736	5,110

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

b. Other income

	Year ended 31 December	
	2020 **£'000**	2019 £'000
Insurance settlement**	**9,982**	–
Revaluation of Income Units Park Plaza County Hall London (see Note 7)	**–**	923
Release of provision for litigation*	**–**	1,093
Gain on sale of fixed assets	**317**	209
	10,299	2,225

* Relates to disputes between Arena and the utility companies Pula Herculanea d.o.o. and Vodovod Pula d.o.o. in relation 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. These disputes have been settled in 2019 and consequently, the relevant provisions in the accounts have been released.

** Net insurance proceeds received in relation to one of the Group's UK hotels.

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

	Year ended 31 December	
	2020 **£'000**	2019 £'000
Guaranteed return (see Note 2(k))	**565**	955
Variable return (see Note 2(k))	**2,646**	12,182
Reimbursement of depreciation expenses (see Note 2(k))	**(942)**	(2,592)
Change in expected cash flow income swaps (see Note 7)	**310**	250
	2,579	10,795

Note 27 Income taxes

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

	Year ended 31 December	
	2020 £'000	2019 £'000
Current taxes	**(458)**	(1,591)
Adjustments in respect of current income tax of previous year	**(626)**	1,303
Deferred taxes	**1,808**	4,393
	724	4,105

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 2019	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)
Amounts charged to income statement	**955**	**(251)**	**1,104**	**1,808**
Change in tax rate	**47**	**(757)**		**(710)**
Reclassification	**292**	**(292)**		
Adjustments for exchange rate differences	**63**	**(375)**	**213**	**(99)**
Balance as at 31 December 2020	**4,208**	**(11,999)**	**6,043**	**(1,748)**

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	
	2020 £'000	2019 £'000
Deferred tax assets	**6,724**	5,173
Deferred tax liabilities	**(8,472)**	(7,920)
	(1,748)	(2,747)

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	
	2020 £'000	2019 £'000
Profit before income taxes	**(94,688)**	38,477
Expected tax at the tax rate of the United Kingdom 19% (2019: 20%)	**17,991**	(7,695)
Adjustments in respect of:		
Effects of other tax rates	**2,771**	3,672
Non-deductible expenses	**(7,496)**	(71)
Utilisation of carried forward losses and temporary differences for which deferred tax assets were not previously recorded	**338**	1,336
Temporary differences for which no deferred tax asset was recorded	**(1,762)**	(73)
Non-taxable income	**(202)**	779
Unrecognised current year tax losses	**(12,351)**	(282)
Recognition of deferred tax asset	**964**	–
Recognition of investment tax credit (see Note 27(f))	**1,104**	6,351
Other differences (including change in tax rate)	**(633)**	88
Income tax benefit (expense) reported in the income statement	**724**	4,105

Note 27 Income taxes continued

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 19% (2019: 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%. In 2020, under the 2021 tax plan which was adopted on 14 December 2019 it was decided that the reduction in corporate income tax rate to 21.7% will be cancelled and the tax rate will remain at 25%.

e. Losses carried forward for tax purposes

The Group has carried forward losses for tax purposes estimated at approximately £184.9 million (2019: £120 million). The Group did not establish deferred tax assets in respect of losses amounting to £166.2 million (2019: £108 million) of which tax losses amounting to £30.5 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. During 2020 Arena invested a total amount eligible for incentives of HRK 37.9 million (£4.5 million).

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). In 2020 Arena recognised a deferred tax asset in relation to the investments that took place in 2020 with a total amount of HRK 9.5 million (£1.1 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	
	2020 £'000	2019 £'000
Profit (loss) attributable to equity holders of the parent	**(81,731)**	33,915
Weighted average number of ordinary shares outstanding	**42,466**	42,391

Potentially dilutive instruments 140,140 in 2020 are not considered, since their effect is antidilutive (increase of loss per share) (2019: 211,518 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, Hungary and Serbia, 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 2020						
	The Netherlands £'000	**Germany, Hungary and Serbia £'000**	**United Kingdom £'000**	**Croatia £'000**	**Management and Central Services £'000**	**Adjustments* £'000**	**Consolidated £'000**
Revenue							
Third party	**14,948**	**8,806**	**56,544**	**18,729**	**2,760**		**101,787**
Inter-segment					**11,633**	**(11,633)**	**–**
Total revenue	**14,948**	**8,806**	**56,544**	**18,729**	**14,393**	**(11,633)**	**101,787**
Segment EBITDA	**(54)**	**(549)**	**1,466**	**362**	**(11,312)**	**–**	**(10,087)**
Depreciation, amortisation and impairment							**(46,624)**
Financial expenses							**(35,526)**
Financial income							**391**
Net expenses for liability in respect of Income Units sold to private investors							**(2,579)**
Other income (expenses), net							**563**
Share in result of joint ventures							**(826)**
Profit before tax							**(94,688)**

* Consist of inter-company eliminations.

	The Netherlands £'000	**Germany, Hungary and Serbia £'000**	**United Kingdom £'000**	**Croatia £'000**	**Adjustments[2] £'000**	**Consolidated £'000**
Geographical information						
Non-current assets[1]	**207,844**	**98,990**	**854,517**	**216,532**	**65,022**	**1,442,905**

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.

	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.

Note 29 Segments continued

	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 30 Related parties

a. Balances with related parties

	As at 31 December	
	2020 £'000	2019 £'000
Loans to joint ventures	**5,066**	11,720
Short-term receivables	**–**	34
Short-term payable	**88**	–
Payable to GC Project Management Limited	**903**	(261)
Payable to Gear Construction UK Limited	**1,862**	–

b. Transactions with related parties

	Year ended 31 December	
	2019 £'000	2019 £'000
Cost of transactions with GC Project Management Limited	**(2,784)**	(2,980)
Cost of transactions with Gear Construction UK Limited	**(13,527)**	–
Interest income from jointly controlled entities	**95**	571

c. Significant other transactions with related parties

(i) **Construction of the art'otel london hoxton** – Following the approval by the independent shareholders, on 7 April 2020 the Group entered into a building contract with Gear Construction UK Limited ('Gear') for the design and construction of the art'otel london hoxton hotel on a "turn-key" basis (the 'building contract'). Under the building contract Gear assumes the responsibility for the design and construction of the main works for the design and build of art'otel london hoxton for a lump sum of £160 million (exclusive of VAT) (the 'Contract Sum').

On top of the contract sum, the Group is entitled to novate certain existing contracts relating to the project to Gear at cost subject to a cap of £5.1 million (exclusive of VAT). Gear is required to complete the works to be executed under the building contract by 2024.

Gear's obligations and liabilities under the building contract are supported by a corporate guarantee from Red Sea Hotels Limited, an associate of Euro Plaza Holdings B.V. and therefore a related party of the Company, in the amount of 10% of the Contract Sum (the 'corporate guarantee'). The corporate guarantee expires on the later of: (i) the expiry of the 2 year defects rectification period which follows practical completion of the works and (ii) the issue of the latent defect insurer's approval or final technical audit report.

As part of entering into the building contract, the Hoxton Project Management Agreement dated 21 June 2018 was terminated.

(ii) **Sub-lease of office space** – A member of the Group has agreed to sub-lease a small area of office space to members or affiliates of the Red Sea Group at its County Hall corporate office in London. Such sub-leases expire on 20 July 2021 and the rent payable by the Red Sea Group to PPHE Hotel Group is based on the cost at which the landlord is leasing such space to PPHE Hotel Group.

(iii) **Pre-Construction and Maintenance Contract** – The Group frequently uses GC Project Management Limited ('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.

(iv) 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.

Note 30 Related parties continued

	Base salary and fees £'000	**Salary Sacrifice Options £'000**	**Bonus £'000**	**Additional Remuneration £'000**	**Retention award[3] £'000**	**Pension contributions £'000**	**Other benefits £'000**	**Total[1] £'000**	**Total Cash paid £'000**
Chairman and Executive Directors	**730**	**9**	**75[2]**	**–**	**–**	**114**	**16**	**944**	**448**
Non-Executive Directors	**232**	**–**	**–**	**–**	**–**	**–**	**–**	**232**	**232**
	962	**9**	**75**	**–**	**–**	**114**	**16**	**1,176**	**680**

1 Include the amounts which became payable in the 2020 financial year to the relevant Directors which were deferred.
2 An executive director is entitled to a bonus of £75,000 in respect of 2019 financial year which is subject to leaver provisions. This bonus was not paid in 2020 and as at 31 December 2020 is included in other payables and accruals.
3 An executive director joined the retention bonus scheme as of 1 January 2020. The retention bonus scheme awards the amount of £50,000 cash per year, payable on the 5th anniversary of joining only if the participant remains in employment subject to leaver provisions, as further specified in the scheme rules.

	Base salary and fees £'000	Bonus £'000	Additional Remuneration £'000	Retention award £'000	Pension contributions £'000	Other benefits £'000	Total £'000	Total Cash paid £'000
Chairman and Executive Directors	855	60[1]	–	53	113	5	1,086	1,086
Non-Executive Directors	243	–	30		–	–	273	273
	1,098	60	30	53	113	5	1,359	1,359

1 Bonus to an executive director in respect of 2018 financial year that was paid in 2019.

Directors' interests in employee share incentive plan

As at 31 December 2020, the Executive Directors held share options to purchase 179,308 ordinary shares (2019: 75,000). 50,000 options were fully exercisable with an exercise price of £6.90 (2019: 50,000), 16,667 options were fully exercisable with an exercise price of £14.30 (2019: 8,333) and 718 options were fully exercisable with a £nil exercise price (2019: 0). No share options were granted to Non-Executive Directors of the Board.

Note 31 Financial instruments 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 2020 £'000	**Cash flows £'000**	**Remeasure-ment through profit and loss £'000**	**Foreign exchange movement £'000**	**New leases/ loans, net £'000**	**Deferred Payments £'000**	**Other £'000**	**As at 31 December 2020 £'000**
Non-current interest-bearing loans and borrowings	**664,345**	**(7,530)**	**–**	**12,353**	**54,267**	**(3,718)**	**1,289**	**721,006**
Non-current lease liability	**227,998**	**(1,461)**	**3,369**	**(180)**	**13,552**	**(1,700)**	**2,072**	**243,650**
		–						
Financial liability in respect of Income Units sold to private investors	**126,704**	**–**	**–**	**–**	**–**	**–**	**(549)**	**126,155**
Derivative financial instruments	**674**	**–**	**–**	**42**	**–**	**–**	**164**	**880**
Current interest-bearing loans and borrowings	**13,916**	**–**	**–**	**(173)**	**19,508**	**3,718**	**(600)**	**36,369**
Current lease liability[1]	**3,596**	**(107)**	**–**	**47**	**–**	**6,857**	**–**	**10,393**
	1,037,233	**(9,098)**	**3,369**	**12,089**	**87,327**	**5,157**	**2,376**	**1,138,453**

1 Includes accrued interest on deferred lease payments.

Note 31 Financial instruments risk management objectives and policies continued

	Changes in financial liabilities arising from financing activities							
	As at 1 January 2019 £'000	Cash flows £'000	Remeasure-ment through profit and loss £'000	Remeasure-ment again set right-of-use assets £'000	Foreign exchange movement £'000	New leases/ loans, net £'000	Other £'000	As at 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

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 2020 amounts to a liability of £879 thousand (2019: liability of £674 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.

Note 31 Financial instruments risk management objectives and policies continued

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.

As a result of the outbreak of COVID-19 pandemic in 2020 and the measures introduced by Governments and authorities across the globe to mitigate the spread of the virus, the Group's operations were significantly impacted. In response, the Group took swift action to strengthen its cash position which includes the postponement of financial covenants testing and amortisation of existing facilities and entering into new loan facilities to finance the working capital of the Group (see Note 1).

Despite the impact of COVID-19 on trading cash flows, the Group continues to hold a strong liquidity position with an overall consolidated cash balance of £114.2 million as at 31 December 2020 and undrawn cash facilities of £83.4 million.

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2020 and 2019 based on contractual undiscounted payments.

	As at 31 December 2020					
	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]	**15,039**	**44,779**	**45,318**	**155,888**	**638,367**	**899,391**
Financial liability in respect of Income Units sold to private investors[2]	**–**	**1,970**	**9,198**	**39,420**	**126,155**	**176,743**
Derivative financial instruments	**110**	**330**	**439**	**–**	**–**	**879**
Lease liability[3]	**3,239**	**9,786**	**13,015**	**39,363**	**609,724**	**675,127**
Trade payables	**6,502**	**–**	**–**	**–**	**–**	**6,502**
Other liabilities	**22,392**	**18,671**	**–**	**–**	**12,331**	**53,394**
	47,282	**75,536**	**67,970**	**234,671**	**1,386,577**	**1,812,036**

	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

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 instruments 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.

	2020 £'000	2019 £'000
Interest-bearing bank loans and borrowings	**757,375**	678,261
Less – cash and cash equivalents	**(114,171)**	(153,029)
Less – long-term restricted cash	**(2,261)**	(1,841)
Less – short-term restricted cash	**(4,755)**	(3,541)
Less – investments in marketable securities	**(27)**	(5,221)
Net debt	**636,161**	514,629
Equity	**404,953**	480,761
Hedging reserve	**703**	655
Total capital	**405,656**	481,416
Capital and net debt	**1,041,817**	996,045
Gearing ratio	**61.1%**	51.7%

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 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.

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. In addition, the Group also holds 46 Income Units in Park Plaza County Hall London which were valued by external valuator using a discounted cash flow technique.

The fair value of financial instruments that are not traded in an active market (such as derivatives and the Income Units in Park Plaza County Hall London) 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 instruments risk management objectives and policies continued

As at 31 December 2020, the Group held the following financial instruments measured at fair value:

Liabilities

	31 December 2020 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Interest rate swaps used for hedging	**879**	–	–	–

Assets

	31 December 2020 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Investments in marketable securities	**27**	–	–	–
Income Units in Park Plaza County Hall London	**15,350**	–	–	–

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	–

During 2020 and 2019, 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	
	2020 £'000	2019 £'000	**2020 £'000**	2019 £'000
Financial liabilities				
Bank borrowings	**757,375**	678,261	**792,521**	700,687