

Capital Hill Hotels Group Europe Limited

Annual report and financial statements

31 December 2018



Annual report and financial statements

for the year ended 31 December 2018

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Directors and advisers

Directors

Z E Guiziri

J A Thani

F Bakhos

K Cooper

Registered office

50 Berners Street

London W1T 3NG

Registered auditors

Ernst & Young LLP

1 More London Place

London SE1 2AF

Strategic report

Principal activity

The principal activity of the company is the holding of a subsidiary which owns and operates two five star hotels in central London – St Martins Lane and Sanderson.

Review of the business

The hotel market in London continues to expand its room supply and RevPar performance remains under pressure.

Both Sanderson and St Martins Lane reflect an uninterrupted financial year with full trading capacity.

Total hotel revenue growth was 1.79% (£717k) year-on-year.

Operating Profit increased by 11.19% (£555k) year-on year mainly due to the increase in ADR by £7.61, expenses were well controlled through all areas within the hotel and strict control on operating costs and payroll.

Principal risk and uncertainties

The group's policy in respect of interest rate risk and liquidity risk is to maintain a mixture of long term and short term debt finance and readily accessible bank deposit accounts to ensure the group has sufficient funds for operations.

Covenant testing points for the external debt which is on lent to the group are tracked and reported to the facility provider on a quarterly basis. The cash deposits are held in a mixture of short term deposits and current accounts which earn interest at a floating rate.

The group's credit risk is primarily attributable to its trade debtors. Credit risk is managed by running credit checks on new customers and by monitoring payments against the agreed credit terms for specific corporate entities.

The group monitors cash flow as part of its day to day control procedures. The directors consider cash flow projections on a monthly basis to ensure that appropriate facilities are available to be drawn upon as necessary.

Demand in the mid and long term is expected to see occupancy levels remain flat with average room rates remaining under pressure with continuously increasing supply in London. Profit flow through remains key and is assisted by positive RevPAR growth despite the difficult market conditions following the Brexit vote.

The group is subject to the cyclical nature of the hospitality and travel industry and is also impacted by the effect that global economic trends have on its customers. On 29 March 2017, the United Kingdom (U.K) government formally announced that the U.K will leave the European Union (E.U). The outcome of the negotiations between the (E.U). and the U.K as regards the framework of the future relationship, in particular, the terms and conditions for the post-Brexit access of the U.K to the European single market, is not clear. If a Withdrawal Agreement is not approved by 31 October 2019, the U.K might leave the (E.U) and become subject to World Trade Organisation tariffs and rules without a transition period being implemented. Brexit continues to create global economic uncertainty, but to date, Brexit is not considered to have had a material impact on the group's UK business although it may impact our customer's behaviours in the future, particularly with respect to closely monitoring their costs and reducing their spending on travel and corporate events. There continues to be uncertainty therefore over how it will ultimately impact the group but management continues to monitor this on an ongoing basis. Budgeting and forecasting processes enable the group to identify risks in market trends at an early stage to help mitigate such risks.

Strategic report (continued)

Principal risk and uncertainties (continued)

The group continues to focus on containing costs while ensuring its service offering is exceptional and delivered in the exciting environment of the hotel properties.

Key performance indicators

The key performance indicators for the group are ARR (Average Room Rate), Occupancy (total available rooms divided by the rooms occupied expressed as a percentage), and RevPAR (Revenue Per Available Room) which is a combination of both expressed as £'s.

In the year under review the combined Occupancy for the hotels was 84.6% (2017 – 82.8%), the ARR achieved was £260.27 (2017 – £252.66). RevPAR (the product of ARR and Occupancy) during the period under review was £220.17 (2017 – £209.32), which represents a year-on-year increase of 5.19%.

On behalf of the board



Z E Guiziri
Director
July 25, 2019

Registered No. 3203996

Directors' report

The directors present their report and the audited financial statements of Capital Hill Hotels Group Europe Limited ('the Company') and its subsidiaries ('the Group') for the year ended 31 December 2018. The company is registered in England and Wales (company number 3203996).

Results and dividends

The results of the year are set out in the accompanying Consolidated Income Statement which shows profit after tax for the year ended 31 December 2018 of £1,709,000 (2017 – £752,000).

The directors do not recommend the payment of a dividend for the year ended 31 December 2018 (2017 – £nil).

Employee involvement

The group's policy is to give full and fair consideration for applications for employment made by people with disabilities. Wherever possible we will continue the employment of staff that become disabled and provide equal opportunities for the training and development of disabled employees.

The group recognises the importance of the employees within its business and annually provides a communication program at which the group's achievements and goals are expressed.

Financial instruments

The group has an interest-bearing intercompany loan due to Capital Hill Hotels Limited for £87,155,874 and other financial instruments as disclosed in Note 21.

Directors and their interests

The directors who served during the year ended 31 December 2018 and up to the date of this report are as follows:

Z E Guiziri
J A Thani
F Bakhos
K Cooper

According to the register of directors' interests, the director who held office at the end of the year had no interest in the shares of group companies, nor were any rights to subscribe for shares in group companies granted to, or exercised by, any of the directors.

Future developments

The directors anticipate that the activity of the group and company will continue for the foreseeable future.

Events since the statement of financial position date

There have been no significant events since the statement of financial position date.

Directors' report (continued)

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the group and company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group and company financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. Under Company Law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group and company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the group and company financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Going concern

Note 2 sets out the basis upon which the directors believe that it remains appropriate to prepare the group and company financial statements on a going concern basis.

Disclosure of information to the auditor

Each of the persons who are a director at the date of approval of this report confirms that:

- So far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- The director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Directors' report (continued)

Disclosure of information to the auditor (continued)

Ernst & Young LLP have expressed their willingness to continue in office as auditor. The board has noted the same and appropriate arrangements will be made in this regard.

Approved by the board of directors and signed on behalf of the board



Z E Guiziri
Director
July 25, 2019

Independent Auditor's Report to the members of Capital Hill Hotels Group Europe Limited

Opinion

We have audited the financial statements of Capital Hill Hotels Group Europe Limited ('the parent company') and its subsidiaries (the 'group') for the year ended 31 December 2018 which comprise the Consolidated Income Statement, Consolidated Statement of Financial Position, Company Statement of Financial Position, Consolidated Statement of Changes in Equity, Company Statement of Changes in Equity, Consolidated Cash Flow Statement and the related notes 1 to 25, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the group's and of the parent company's affairs as at 31 December 2018 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Independent Auditor's Report to the members of Capital Hill Hotels Group Europe Limited (continued)

Other information

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

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Independent Auditor's Report to the members of Capital Hill Hotels Group Europe Limited (continued)

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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



Rebecca Turner (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

26th July 2019

Consolidated income statement

for the year ended 31 December 2018

	Notes	2018 £000	2017 £000
Turnover	4	40,790	40,073
Cost of sales		<u>(14,856)</u>	<u>(15,237)</u>
Gross profit		25,934	24,836
Administrative expenses		<u>(20,418)</u>	<u>(19,875)</u>
Operating profit	6	5,516	4,961
Finance expense	7	<u>(3,231)</u>	<u>(3,465)</u>
Profit before taxation		2,285	1,496
Tax on profit	8	<u>(576)</u>	<u>(744)</u>
Profit for the financial year		<u><u>1,709</u></u>	<u><u>752</u></u>

All activities derive from continuing operations.

There was no other Comprehensive Income in either year, therefore Total Comprehensive Income is represented by the profit for the years presented.

The notes on pages 17 to 33 form part of these financial statements.

Consolidated statement of financial position

at 31 December 2018

	Notes	2018 £000	2017 £000
Assets			
Non-current assets			
Property, plant & equipment	10	92,670	95,080
Current assets			
Stock	13	310	293
Trade and other receivables	14	3,299	3,354
Cash at bank and in hand		3,755	4,484
Total current assets		<u>7,364</u>	<u>8,131</u>
Total assets		100,034	103,211
Current liabilities			
Trade and other payables	15	<u>(5,823)</u>	<u>(4,980)</u>
Net current assets		1,541	3,151
Non-current liabilities			
Deferred tax liability	17	(3,224)	(3,408)
Loans and borrowings	18	(87,156)	(92,701)
Finance lease liabilities	19	<u>(1,103)</u>	<u>(1,103)</u>
Net assets		<u>2,728</u>	<u>1,019</u>
Equity			
Called up share capital	20	5,000	5,000
Share premium account		10,000	10,000
Other capital reserve		1,582	1,582
Profit and loss account		<u>(13,854)</u>	<u>(15,563)</u>
		<u>2,728</u>	<u>1,019</u>

The financial statements of Capital Hill Hotels Group Europe Limited, registered number 3203996, were approved by the Board of Directors and authorised for issue on July 25, 2019

Signed on behalf of the Board of Directors



Z E Guiziri
Director

The notes on pages 17 to 33 form part of these financial statements.

Company statement of financial position

at 31 December 2018

	Notes	2018 £000	2017 £000
Assets			
Non-current assets			
Investment in subsidiary	11	35,000	35,000
Non-current financial assets	12	<u>5,776</u>	<u>5,776</u>
Total assets		40,776	40,776
Non-current liabilities			
Non-current financial liabilities	16	<u>(18,406)</u>	<u>(18,406)</u>
Net assets		<u>22,370</u>	<u>22,370</u>
Equity			
Called up share capital	20	5,000	5,000
Share premium account		10,000	10,000
Other capital reserve		1,582	1,582
Profit and loss account		<u>5,788</u>	<u>5,788</u>
		<u>22,370</u>	<u>22,370</u>

The financial statements were approved by the Board of Directors and authorised for issue on July 25, 2019.

Signed on behalf of the Board of Directors



Z E Guiziri
Director

The notes on pages 17 to 33 form part of these financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2018

	<i>Called up share capital (Note 20) £000</i>	<i>Share premium account £000</i>	<i>Other capital reserve £000</i>	<i>Profit and loss account £000</i>	<i>Total £000</i>
At 1 January 2017	5,000	10,000	1,582	(16,315)	267
Profit for the year	–	–	–	752	752
Other comprehensive income / (loss)	–	–	–	–	–
Total comprehensive income for the year	–	–	–	752	752
At 31 December 2017	5,000	10,000	1,582	(15,563)	1,019
Profit for the year	–	–	–	1,709	1,709
Other comprehensive income / (loss)	–	–	–	–	–
Total comprehensive income for the year	–	–	–	1,709	1,709
At 31 December 2018	5,000	10,000	1,582	13,854	2,728

The notes on pages 17 to 33 form part of these financial statements.

Company statement of changes in equity

for the year ended 31 December 2018

	<i>Called up share capital (Note 20) £000</i>	<i>Share premium account £000</i>	<i>Other capital reserve £000</i>	<i>Profit and loss account £000</i>	<i>Total £000</i>
At 1 January 2017	5,000	10,000	1,582	5,788	22,370
Profit / (loss) for the year	-	-	-	-	-
Other comprehensive income / (loss)	-	-	-	-	-
Total comprehensive income / (loss) for the year	-	-	-	-	-
At 31 December 2017	5,000	10,000	1,582	5,788	22,370
Profit / (loss) for the year	-	-	-	-	-
Other comprehensive income / (loss)	-	-	-	-	-
Total comprehensive income / (loss) for the year	-	-	-	-	-
At 31 December 2018	5,000	10,000	1,582	5,788	22,370

The notes on pages 17 to 33 form part of these financial statements.

Consolidated cash flow statement

for the year ended 31 December 2018

		2018	2017
	Notes	£000	£000
Operating activities			
Profit before taxation		2,285	1,496
Depreciation	10	3,779	4,106
Finance expense	7	3,231	3,465
		<u>9,295</u>	<u>9,067</u>
Working capital adjustments:			
(Increase) / decrease in inventory	13	(17)	56
Decrease / (increase) in receivables	14	55	(369)
Increase / (decrease) in payables	15	83	(413)
Net cash flow from operating activities		<u>9,416</u>	<u>8,341</u>
Investing activities			
Purchase of property, plant and equipment	10	(1,369)	(1,303)
Net cash flow used in investing activities		<u>(1,369)</u>	<u>(1,303)</u>
Finance activities			
Repayment of borrowings	18	5,545	8,319
Interest paid	7	(3,231)	(3,465)
Net cash flow used in financing activities		<u>(8,776)</u>	<u>(11,784)</u>
Net (decrease) in cash and cash equivalents		<u>(729)</u>	<u>(4,746)</u>
Cash and cash equivalents at the beginning of the year		<u>4,484</u>	<u>9,230</u>
Cash and cash equivalents at 31 December		<u>3,755</u>	<u>4,484</u>

The notes on pages 17 to 33 form part of these financial statements.

Notes to the financial statements

at 31 December 2018

1. General information

Capital Hill Hotels Group Europe Limited is a private company limited by shares incorporated and domiciled in England and Wales. The principal activity of the company is the holding of a subsidiary which owns and operates two five star hotels in central London – St Martin's Lane and Sanderson. The principal accounting policies adopted are set out in note 3.

2. Basis of preparation

The Group and Company has adopted International Financial Reporting Standards (IFRSs) as adopted by the European Union as the accounting standards for the financial statements. The financial statements have been prepared in accordance with IFRSs as adopted by the European Union and interpretations issued by the International Financial Reporting Interpretation Committee (IFRICs), as they apply to the financial statements of the Group and Company for the year ended 31 December 2017. The financial statements are prepared on the historical cost basis, except for derivative financial instruments. The financial statements are presented in British Pounds and all values are rounded to the nearest thousand (£000), except when otherwise indicated.

New and amended standards adopted by the Group:

For the period beginning on 1 January 2018 the Group has adopted IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers for the first time. The adoption of these new standards and other amendments to existing standards and interpretations effective from 1 January 2018, did not materially impact the financial statements for the 12 months ended 31 December 2018 and no retrospective adjustments were made.

IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 replaced the existing regulations for the recognition of revenue in accordance with IAS 18 "Revenue". Consequently, revenues are recognised, when the customer obtains control over the agreed goods and services and can derive benefits from these. There were no material changes identified from adoption of the standard.

IFRS 9 "Financial Instruments"

IFRS 9 provides a standardised approach for classification, measurement and derecognition of financial assets and liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. There were no material changes identified from adoption of the standard.

As part of the review of the impact of adopting the amendments to IFRS the Group has taken the opportunity to revisit its disclosure in the financial statements, and has enhanced disclosure in relation to the revenue streams in note 4.

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of the issuance of the financial statements and that may impact the financial statements are disclosed below. There are no other standards in issue but not yet effective that are expected to have an impact on the financial statements.

IFRS 16 Leases

*Effective for periods commencing on or after
1 January 2019*

Notes to the financial statements (continued)

at 31 December 2018

2. Basis of preparation (continued)

Standards issued but not yet effective (continued)

The Group plans to adopt IFRS 16 using a modified retrospective approach. Under a modified retrospective approach, a company applies the new standard from the beginning of the period this IFRS applies to.

The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

The Group has completed its assessment of potential impact of the first-time adoption of IFRS 16 as of 1 January 2019. The expected impact of adopting IFRS 16 is expected to be immaterial. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions including the Group's borrowing rate at 1 January 2019.

Going concern

The financial statements have been prepared on a going concern basis, which assumes the Group will be able to meet its liabilities as and when they fall due for the foreseeable future. At 31 December 2018, the Group has net current assets of £1,541k (2017 – £3,151k) and net assets of £2,728k (2017 – £1,019k).

The Group has received confirmation from its intermediate controlling party (Constellation Hotels Holding Limited S.C.A.) that it will provide continuous financial support for the foreseeable future.

Having considered this support and the forecast cash flows and risks faced by the Group, the Directors believe that this will enable the group to continue in operational existence for the foreseeable future and meet its liabilities as they fall due for payment.

Consequently, the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

3. Principal accounting policies

Revenue

Revenues are generated from the provision of the hotels' guest rooms, food and beverage outlets as well as ancillary services such as rental income from let areas, cancellation fees, concierge services and various others.

- Room revenue is recognised when the room is occupied
- Revenue from provision of food and beverages is recognised when sold
- Service revenue is recognised when the service is provided
- Rental income from operating leases is recognised on a straight line basis

Investments

Investments are stated at cost less provision for impairment.

Where there are indicators of impairment of investments in subsidiaries which indicate that the carrying value may not be recoverable, the Group performs impairment tests on these investments by comparing the carrying value with its recoverable amount; being the higher of its fair value less costs to sell and its value in use.

3. Principal accounting policies (continued)

Property, plant & equipment

Property, plant & equipment are stated at cost less depreciation and any provision for impairment. Assets are depreciated to their residual values on a straight line basis over their estimated useful lives as follows:

Notes to the financial statements (continued)

at 31 December 2018

3. Principal accounting policies (continued)

Property, plant & equipment

Property, plant & equipment are stated at cost less depreciation and any provision for impairment. Assets are depreciated to their residual values on a straight line basis over their estimated useful lives as follows:

Freehold and long leasehold buildings	–	50 years
Building surface finishes	–	25 – 38 years
Plant and machinery	–	15 years
Fixtures, fittings and equipment	–	5 – 10 years

No depreciation is provided on freehold land. No residual values are ascribed to building surface finishes.

Freehold land, freehold and long leasehold buildings and building surface finishes are all held as land and buildings within note 10.

No depreciation is provided for assets under construction in progress until the asset is placed into use.

Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset (or assets) or the arrangement conveys a right to use the asset (or assets), even if that right is not explicitly specified in the arrangement.

Group as a lessee

A lease is classified at the inception date as either a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the company is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and the reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term. The lease liability is amortised using the effective interest method.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term, except for contingent rental payments which are expensed when they arise.

Deferred taxation

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are generally recognised for all taxable temporary differences.

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 generally 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 credits and unused tax losses can be utilised.

Notes to the financial statements (continued)

at 31 December 2018

3. Principal accounting policies (continued)

Financial instruments

(a) Financial assets

Trade and other receivables

These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method and are subject to impairment.

Cash and cash equivalents

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

(b) Financial Liabilities

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.

Loans and Borrowings

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.

Non-derivative financial liabilities are initially recognised at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

(c) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Ordinary dividends are recognised in the period in which they are paid to shareholders.

Inventory

Stocks are stated at the lower of cost and net realisable value.

Pension scheme

The Group operates a defined contribution pension scheme. Contributions are charged to the profit and loss account in the period in which they are incurred.

Significant accounting estimates and assumptions

The preparation of financial statements in conformity with IFRS requires the directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The significant estimates and assumptions in determining the financial condition and results of the Group are as follows:

Estimates

- The depreciable lives of property, plant & equipment

Judgements

- The recoverability of any recognised deferred taxation

Notes to the financial statements (continued)

at 31 December 2018

4. Revenue

	2018	2017
	£000	£000
Rooms	28,448	26,921
Food and beverage	9,965	10,374
Other	2,377	2,778
	<u>40,790</u>	<u>40,073</u>

All revenue arises in the United Kingdom.

5. Staff numbers and costs

	2018	2017
	No.	No.
<i>The average number of employees in the year was:</i>		
Hotel operating staff	326	325
Management/administration	19	17
Sales and marketing	9	10
Maintenance	16	15
Total	<u>370</u>	<u>367</u>

The aggregate payroll costs for these persons were as follows:

	2018	2017
	£000	£000
Wages and salaries	11,291	10,807
Social security costs	964	908
Pension costs	187	133
	<u>12,442</u>	<u>11,848</u>

The directors represent key management personnel. The directors were paid by a parent entity for their services to the wider group. It is not practical to allocate an amount for their services to this group alone.

Salary costs relating to employees of Morgans Hotel Group are considered to be costs of key management personnel, which are paid through a management fee due to Morgans Hotel Group as disclosed in note 23.

Funded defined contribution scheme for employees (group scheme)

Pension costs of £187,000 (2017 – £133,000) were charged to the profit and loss account of which £nil (2017 – £nil) was outstanding at the balance sheet date.

Notes to the financial statements (continued)

at 31 December 2018

6. Operating profit

This is arrived at after charging:

	2018	2017
	£000	£000
Auditors' remuneration:		
– Group – audit	26	77
– Company – audit	6	10
Depreciation of property, plant & equipment	3,779	4,106
Finance charges on lease obligations	75	75

7. Finance expense

	2018	2017
	£000	£000
Interest on loans	3,231	3,465
	<u>3,231</u>	<u>3,465</u>

8. Taxation

(a) Analysis of tax charge in the year

	2018	2017
	£000	£000
Current tax:		
Current tax on profits for the year	765	94
Adjustment in respect of prior periods	(5)	–
Total current tax	<u>760</u>	<u>94</u>
Deferred tax:		
Current year	(206)	735
Effects of changes in tax rates	22	(86)
Rounding	–	1
Total deferred tax (note 17)	<u>(184)</u>	<u>650</u>
Tax charge to the income statement	<u>576</u>	<u>744</u>

Notes to the financial statements (continued)

at 31 December 2018

8. Taxation (continued)

(b) Factors affecting total tax charge for the year

	2018 £000	2017 £000
Profit before tax	2,285	1,496
Tax on profit at UK tax rate of 19.00% (2017 – 19.25%)	434	288
<i>Effects of:</i>		
Adjustment in respect of prior years	(5)	–
Expenses not deductible	130	542
Tax rate changes	22	(86)
Amounts not recognised	(5)	–
Tax charge for the period	576	744

9. Company profit for the financial year

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own profit & loss account in these financial statements. The profit for the year is £nil (2017 – £nil).

10. Property, plant & equipment – Group

	Land and buildings £000	Plant and machinery £000	Fixtures, fittings and equipment £000	Total £000
Cost				
At 1 January 2018	103,423	13,745	31,199	148,367
Additions	145	66	1,158	1,369
Disposals	–	–	–	–
At 31 December 2018	103,568	13,811	32,357	149,736
Depreciation				
At 1 January 2018	18,473	11,234	23,580	53,287
Charge for the year	896	502	2,381	3,779
At 31 December 2018	19,369	11,736	25,961	57,066
Net book amount at 31 December 2018	84,199	2,075	6,396	92,670
Net book amount at 31 December 2017	84,950	2,511	7,619	95,080

Included in total net book value of land and buildings is a long leasehold property. The ground lease associated with this property is accounted for as a finance lease as disclosed in note 3 and note 19. The finance lease asset is included at the present value of future obligations discounted based on the incremental borrowing rate at the date of lease commencement. The carrying amount of the finance lease asset, net of accumulated depreciation of £371,000 (2017 – £351,000), at 31 December 2018 was £642,000 (2017 - £662,000).

Notes to the financial statements (continued)

at 31 December 2018

11. Investment in subsidiary

	2018 Company £000	2017 Company £000
At 1 January 2018 and 31 December 2018	35,000	35,000

The company owns 100% of the ordinary shares of Capital Hill Hotels Group London Limited, a company incorporated in England and Wales, whose principal activity is the ownership and operation of two hotels in London.

12. Non-current financial assets

	Group 2018 £000	Company 2018 £000	Group 2017 £000	Company 2017 £000
Amounts due from group undertakings	–	5,776	–	5,776

13. Stock

	2018 £000	2017 £000
Food and beverage	310	293

14. Trade and other receivables

	Group 2018 £000	Company 2018 £000	Group 2017 £000	Company 2017 £000
Trade receivable	1,085	–	1,099	–
Amounts due from parent undertakings	1,186	–	872	–
Amount due from related parties	11	–	58	–
Prepayments	997	–	1,325	–
	3,299	–	3,354	–

Notes to the financial statements (continued)

at 31 December 2018

15. Trade and other payables

	<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
	<i>2018</i>	<i>2018</i>	<i>2017</i>	<i>2017</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Trade payables	(819)	–	(1,226)	–
Amounts due to related parties	(398)	–	(470)	–
Taxation and social security	(1,206)	–	(992)	–
Accruals and deferred income	(2,526)	–	(2,178)	–
Other payables	(19)	–	(20)	–
Corporation tax	(855)	–	(94)	–
	<u>(5,823)</u>	<u>–</u>	<u>(4,980)</u>	<u>–</u>

16. Non-current financial liabilities

	<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
	<i>2018</i>	<i>2018</i>	<i>2017</i>	<i>2017</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Amounts due to group undertakings	<u>–</u>	<u>(18,406)</u>	<u>–</u>	<u>(18,406)</u>

17. Deferred taxation

(a) Deferred tax note

	<i>2018</i>	<i>2017</i>
	<i>£000</i>	<i>£000</i>
Provision at the start of the year	3,408	2,759
Deferred tax (credit) / charge to the income statement	(184)	650
Rounding	–	(1)
Provision at the end of the year	<u>3,224</u>	<u>3,408</u>

(b) Analysis of deferred tax balance

	<i>2018</i>	<i>2017</i>
	<i>£000</i>	<i>£000</i>
Fixed assets	3,052	3,212
Temporary differences trading	(4)	(9)
IFRS swap adjustment	176	205
Provision at the end of the year	<u>3,224</u>	<u>3,408</u>

Notes to the financial statements (continued)

at 31 December 2018

17. Deferred taxation (continued)

The standard rate of corporation tax in the UK was changed from 20% to 19% with effect from 1 April 2017. Accordingly, the Group's profits for the accounting period are taxed at a rate of 19.00% (2017 – blended rate of 19.25%). The corporation tax rate will reduce to 17% from 1 April 2020. The rate changes will impact the amount of future tax payments to be made by the Group.

The Group has losses carried forward of £nil (2017 – nil).

The Group has gross unrecognised losses carried forward of £2.0m (2017 – £2.0m).

18. Interest bearing loans and borrowings

	2018 £000	2017 £000
Amount due to parent company	87,156	92,701
Loan from parent is repayable as follows:		
	2018 £000	2017 £000
In one year or less, or on demand	–	–
In more than one year, but not more than two years	87,156	–
In more than two years, but not more than five years	–	92,701
	87,156	92,701

The amount due to parent company is a £87,155,874 unsecured loan from Capital Hill Hotels Limited to Capital Hill Hotels Group London Limited executed on 30 November 2016 (retrospectively applied and drawn down on 18 August 2015) which is repayable on 18 August 2020. This facility carries a fixed annual interest rate.

19. Finance Lease

	2018 £000	2017 £000
Within 1 Year	75	75
After 1 Year but not more than 5 years	300	300
More than 5 years	9,225	9,300
Total minimum lease payments	9,600	9,675
Less: future interest costs	(8,497)	(8,572)
Present value of minimum lease payments	1,103	1,103

Notes to the financial statements (continued)

at 31 December 2018

19. Finance Lease (continued)

The Group acquired a leasehold property that is held at cost less accumulated depreciation within land and buildings. The ground lease associated with this property is accounted for as a finance lease. Finance lease payments represent ground rent payable by the Group on a lease term of 150 years from 1 January 1997 to 31 December 2146. A restriction on use is placed on the building in that it will not be used otherwise than as a high quality hotel or high class offices in keeping with the prestigious nature of the present listed building. The lease is on a fixed repayment basis and subject to rent review every 20 years with the first having taken place in June 2017. This contingent rental is calculated by reference to a retail price index. The amount recognised as an expense in the year in respect of contingent rental is £56,978 (2017 – £28,489).

20. Called up share capital

	31 December 2018 £000	31 December 2017 £000
Authorised		
1,000 ordinary shares of £1 each	1	1
2,499,999 A ordinary shares of £1 each	2,500	2,500
2,499,999 B ordinary shares of £1 each	2,500	2,500
	<u>5,001</u>	<u>5,001</u>
Allotted, called up and fully paid		
2 ordinary shares of £1 each	–	–
2,499,999 A ordinary shares of £1 each	2,500	2,500
2,499,999 B ordinary shares of £1 each	2,500	2,500
	<u>5,000</u>	<u>5,000</u>

Both the A and B ordinary shares carry equal voting rights, equal rights to dividends and equal rights on winding up and rank pari passu with each other. The preferred ordinary shares carry non-voting rights and rank pari passu with the A and B ordinary shares.

Capital policy

The capital for the Company is provided via funding from the parent and equity contributions and the primary objective is to generate a return for its shareholders.

21. Financial instruments and risk management

(a) Accounting classifications and fair value

The following tables show the carrying amount of financial assets and liabilities including their values in the fair value hierarchy. The tables do not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

Notes to the financial statements (continued)

at 31 December 2018

21. Financial instruments and risk management (continued)

(a) Accounting classifications and fair value (continued)

Group	Carrying amount				Fair value £000
	Loans and Receivables £000	Liabilities at Amortised cost £000	Fair value hedging instruments £000	Total carrying amount £000	
31 December 2018					
Trade receivables	1,085	–	–	1,085	1,085
Amounts due from intermediate parent undertaking	1,186	–	–	1,186	1,186
Amounts due from related parties	11	–	–	11	11
Cash and cash equivalents	3,755	–	–	3,755	3,755
Trade creditors	–	(819)	–	(819)	(819)
Amount due to related parties	–	(398)	–	(398)	(398)
Other creditors	–	(19)	–	(19)	(19)
Loan and borrowings	–	(87,156)	–	(87,156)	(87,156)
Finance lease liabilities	–	(1,103)	–	(1,103)	(1,103)
	<u>6,037</u>	<u>(89,495)</u>	<u>–</u>	<u>(83,458)</u>	<u>(83,458)</u>

Group	Carrying amount				Fair value £000
	Loans and Receivables £000	Liabilities at Amortised cost £000	Fair value hedging instruments £000	Total carrying amount £000	
31 December 2017					
Trade receivables	1,099	–	–	1,099	1,099
Amounts due from intermediate parent undertaking	872	–	–	872	872
Amounts due from related parties	58	–	–	58	58
Cash and cash equivalents	4,484	–	–	4,484	4,484
Trade creditors	–	(1,226)	–	(1,226)	(1,226)
Amount due to related parties	–	(470)	–	(470)	(470)
Other creditors	–	(20)	–	(20)	(20)
Loan and borrowings	–	(92,701)	–	(92,701)	(92,701)
Finance lease liabilities	–	(1,103)	–	(1,103)	(1,103)
	<u>6,513</u>	<u>(95,520)</u>	<u>–</u>	<u>(89,007)</u>	<u>(89,007)</u>

Estimation of fair values

The principal methods and assumptions used in estimating the fair values of financial assets and liabilities are explained below.

Cash and cash equivalents including the short-term bank deposits

For short term bank deposits and cash and cash equivalents, all of which have a maturity of less than three months, the carrying value is deemed to reflect a reasonable approximation of fair value.

Notes to the financial statements (continued)

at 31 December 2018

21. Financial instruments and risk management (continued)

(a) Accounting classifications and fair value (continued)

Trade and other receivables/payables

For the receivables and payables with a remaining term of less than one year or demand balances, the carrying value less impairment provision, where appropriate, is a reasonable approximation of fair value.

Loans

For bank loans and borrowings, the fair value is calculated based on discounted cash flow techniques.

(b) Financial risk management

The Group is exposed to various financial risks that include credit risk, liquidity risk and market risk. The group has a risk management framework in place which seeks to limit the impact of these risks on the financial performance of the group. It is the policy of the group to manage these risks in a non-speculative manner.

This note presents information about the Group's exposure to each of the above risks and the objectives, policies and processes for measuring and managing the risks. Further quantitative and qualitative disclosures are included throughout this note.

The Group's board of directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

(c) Credit risk

Exposure to credit risk

Credit risk arises from granting credit to customers and from investing cash and cash equivalents with banks and financial institutions.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. There is no concentration of credit risk or dependence on individual customers.

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

Cash and short-term bank deposits

The Group is exposed to credit risk from the counterparties with whom it places its bank deposits. The Group is satisfied that the credit risk associated with its deposits is not significant.

The carrying amount of financial assets, net of impairment provisions, represents the Group's maximum credit exposure.

Trade receivables

The Group has detailed procedures for monitoring and managing the credit risk related to trade receivables. Trade receivables are monitored by review of aged debtor reports by management.

Notes to the financial statements (continued)

at 31 December 2018

21. Financial instruments and risk management (continued)

(c) Credit risk (continued)

Trade receivables (continued)

	Gross £000	Impairment £000	Net receivables £000
Group			
At 31 December 2018			
Not past due	262	–	262
Past due < 90 days	838	(15)	823
Past due > 90 days	10	(10)	–
	<u>1,110</u>	<u>(25)</u>	<u>1,085</u>

	Gross £000	Impairment £000	Net Receivables £000
Group			
At 31 December 2017			
Not past due	313	–	313
Past due < 90 days	795	(9)	786
Past due > 90 days	14	(14)	–
	<u>1,122</u>	<u>(23)</u>	<u>1,099</u>

(d) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due. The ongoing development works are fully funded by the loans advanced by the parent company and the Group can arrange an overdraft facility if needed.

Bank loans

Interest of £3,231,000 was recognised in the current financial year (2017 – £3,465,000).

Overdraft facilities

The Group has no undrawn overdraft or other loan facilities.

Notes to the financial statements (continued)

at 31 December 2018

21. Financial instruments and risk management (continued)

(d) Liquidity risk (continued)

Contractual maturities

The following are the contractual maturities of the Group's financial liabilities, including estimated interest payments.

	<i>Carrying Amount £000</i>	<i>Contractual cash flows £000</i>	<i>6 months or less £000</i>	<i>6 – 12 months £000</i>	<i>1 – 2 years £000</i>	<i>2 – 5 years £000</i>	<i>More than 5 years £000</i>
Group							
At 31 December 2018							
Trade creditors	819	819	819	–	–	–	–
Amount due to related parties	398	398	398	–	–	–	–
Other creditors	19	19	19	–	–	–	–
Loan and borrowings	87,156	92,186	1,526	1,586	89,074	–	–
Finance lease liabilities	1,103	16,893	66	66	132	396	16,233
	<u>89,495</u>	<u>110,315</u>	<u>2,828</u>	<u>1,652</u>	<u>89,206</u>	<u>396</u>	<u>16,233</u>

Notes to the financial statements (continued)

at 31 December 2018

21. Financial instruments and risk management (continued)

(d) Liquidity risk (continued)

	Carrying Amount £000	Contractual cash flows £000	6 months or less £000	6 – 12 months £000	1 – 2 years £000	2 – 5 years £000	More than 5 years £000
Group							
At 31 December 2017							
Trade creditors	1,226	1,226	1,226	–	–	–	–
Amount due to related parties	470	470	470	–	–	–	–
Other creditors	20	20	20	–	–	–	–
Loan and borrowings	92,701	95,414	1,626	1,602	3,112	89,074	–
Finance lease liabilities	1,103	17,025	66	66	132	396	16,365
	<u>95,520</u>	<u>114,155</u>	<u>3,408</u>	<u>1,668</u>	<u>3,244</u>	<u>89,470</u>	<u>16,365</u>

(e) Market risk

Market risk is the risk that changes in market prices and indices, such as foreign exchange rates, and interest rates will affect the Group's income or the value of its holdings of financial instruments. The Group is not currently exposed to interest rate risk as all borrowings are subject to fixed interest rates. Management believe exposure to foreign exchange rates is minimal as the vast majority of good and services are sourced in the United Kingdom.

(f) Foreign exchange rate risk

The Group is not exposed to translation foreign exchange rate risk on its hotel operations as all of its operations are within the UK.

(g) Interest rate risk

The Group is not currently exposed to interest rate risk as all borrowings are subject to fixed interest rates.

Notes to the financial statements (continued)

at 31 December 2018

22. Immediate and controlling party

The Company's immediate parent is Capital Hill Hotels Limited, a company registered in England and Wales and the parent of the smallest group into which the company's results are consolidated.

The ultimate consolidating entity is Prime Capital SA a company registered in Luxembourg.

The ultimate controlling party is His Excellency Sheikh Hamad Bin Jassim Bin Jaber Al Thani.

23. Related party balances and transactions

Capital Hill Hotels Group Europe Limited owns 100% of the ordinary shares of Capital Hill Hotels Group London Limited.

Capital Hill Hotels Limited owns 100% shares of Capital Hill Hotels Group Europe Limited, the immediate parent company of Capital Hill Hotels Group London Limited.

Capital Hill Hotels Group London Limited has a receivable of £18,406k (2017 - £18,406k) due from and a payable of £5,776k (2017 - £5,776k) due to Capital Hill Hotels Group Europe Limited.

Capital Hill Hotels Group London Limited borrowed £87,155,874 (2017 - £92,701,329) and has a receivable of £1,186,018 (2017 - £871,701) due from Capital Hill Hotels Limited.

Morgans Hotel Group UK Management Limited charged Capital Hill Hotels Group London Limited a management fee of £1,612,112 (2017 - £1,579,937) and a chain fee of £1,108,327 (2017 - £987,460) relating to hotel management. Capital Hill Hotels Group London Limited has a receivable of £2,007 (2017 - £5,472) due from and payable of £354,253 (2017 £407,399) due to Morgans Hotel Group UK Management Limited.

Salary costs relating to employees of Morgans Hotel Group are considered to be costs of key management personnel.

Capital Hill Hotels Group London Limited has a receivable of £5,499 (2017 - £5,499) due from and a payable of £41,113 (2017 - £54,116) due to Morgans Hotel Group LLC, a related party and parent of Morgans Hotel Group UK Management Limited.

Capital Hill Hotels Group London Limited has a receivable of £3,323 (2017 - £47,168) due from and a payable of £2,743 (2017 - £8,464) due to Mondrian London, which is also managed by Morgans Hotel Group UK Management Limited.

24. Contingencies

There are no contingencies which are required to be disclosed.

25. Subsequent events

The Directors have evaluated all subsequent events from the balance sheet date and no material events have occurred subsequent to 31 December 2018 which require disclosure.