Registration number: 09861398
(England and Wales)

LGH Hotels Management Limited

(previously Lapithus Hotels Management UK Limited)

Annual Report and Consolidated Financial Statements

for the Year Ended 31 December 2018

LGH Hotels Management Limited

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LGH Hotels Management Limited

Company Information

Directors

DMA Beveridge
G Efrati
SM Teasdale

Company secretary

Haysmacintyre Company Secretaries Limited
10 Queen Street Place
London
EC4R 1AG

Company number

09861398

Registered office

10 Queen Street Place
London
EC4R 1AG

Auditors

Deloitte LLP
Statutory Auditor
London
United Kingdom

LGH Hotels Management Limited

Strategic Report
For the year ended 31 December 2018

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

Principal activity
The principal activity of the company is that of a parent undertaking to a group of subsidiaries (together the "group") owning and operating hotels in the United Kingdom.

Fair review of the business
On 4 April 2018, UK Investment Company 210 Limited acquired a 100% equity interest in the company. In order to finance the acquisition, UK Investment Company 210 Limited secured £519.0m external financing (note 20) from Goldman Sachs Bank USA. This external financing was novated to subsidiaries within the group and used to repay the existing external and shareholder borrowings.

The hotels in the group operate under a franchise agreement with InterContinental Hotels Group PLC ("IHG"). LGH Hotels Management Limited managed the company's portfolio of hotels on a central basis under a management contract at the period end.

The directors were satisfied with the performance of 2018 and believe that in 2019 the group will benefit from continued improvement in the underlying economy and demand for hotels in the UK, boosted by planned capital injections and refurbishment of assets throughout the year. The directors continue to monitor potential impact to the business as a result of the exit of Britain from the European Union, and mitigate any risks as they arise.

Principal risks and uncertainties and risk management objectives and policies
Principal risks and uncertainties arising from the financial instruments held by the group and risk management objectives and policies are disclosed in note 26 to the consolidated financial statements.

Price risk
The group is exposed to the inherent risk of economic and financial market developments, including recession, inflation, availability of affordable credit and currency fluctuations that could lower revenues and reduce income. A recession reduces leisure and business travel and adversely affects room rates and/or occupancy levels and other income generating activities, resulting in deterioration of results of operations and potentially reducing the value of properties in affected economies. Through a continual business review process and monitoring of the business environment, together with the terms and the services standards required of IHG under the franchise agreement, the directors of the company and the wider group seek to mitigate these potential risks.

LGH Hotels Management Limited

Strategic Report

For the year ended 31 December 2018 (continued)

Key performance indicators

Total revenue for the year from continuing operations was £184.1m (2017: £182.9m), representing an increase of 0.6% compared to the previous year (2017: increase of 3.2%). Management's emphasis is on increasing occupancy, RevPAR and total room revenue. In 2018 occupancy decreased to 84.24% (2017: 84.52%), RevPAR decreased to £72.39 (2017: £72.53) and total room revenue decreased to £128.0m (2017: £128.1m).

Approved by the Board on 17 June 2019 and signed on its behalf by:

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DMA Beveridge

Director

Directors' Report

For the year ended 31 December 2018

The directors present their report and the consolidated financial statements for the year ended 31 December 2018. During the year, the company changed its name from Lapithus Hotels Management UK Limited to LGH Hotels Management Limited.

Future developments

The trading environment is expected to remain broadly unchanged during 2019 and the group will seek to improve revenue whilst continuing to review the underlying cost base.

Going concern

The trading results for the period and the group's financial position at the end of the period are shown in the attached financial statements. The directors have concluded that the group is a going concern (note 2d). The profit for the year from continuing operations after taxation was £10.6m (2017: £5.7m).

Dividends

The directors do not recommend a dividend for the current period. No dividend was paid in the current or prior period.

Financial risk management

The company's financial risk management policies are discussed in the strategic report.

Directors' of the group

The directors, who held office during the year and to the date of issue of the financial statements, were as follows:

DMA Beveridge (appointed 14 September 2018)
S Collins (resigned 4 April 2018)
G Efrati (appointed 4 April 2018)
PT Mabry (resigned 4 April 2018)
JB Robinson (resigned 14 September 2018)
SM Teasdale

Directors' liabilities

The group maintains liability insurance for its directors and officers.

Political and charitable contributions

The group made no political or charitable contributions or incurred any political expenditure during the current or prior period.

LGH Hotels Management Limited

Directors' Report
For the year ended 31 December 2018 (continued)

Employee involvement
LGH Hotels Management Limited managed the operations of the group on a central basis under a management agreement at the year end. The group relies on the terms of the management agreement, as regards employees, in that the management company shall take all steps to enable the group to comply with any obligations it may have. As such, the employment policies in place embody the principles of equal opportunity. This includes suitable procedures to support the policy that individuals should not be discriminated against on the basis of race, disability, age, gender, sexuality or religion and that they should be considered for employment and subsequent training, career development and promotion on the basis of their aptitudes and abilities. The value of employee involvement in effective communications is recognised, as is the need for their contribution to decision making on matters affecting their jobs. To achieve employee involvement at the most relevant level, there is a framework in place for consultation and information.

Creditor payment policy
The group agrees commercial terms with suppliers (including payment terms) and, if performance accords with these terms, aims to abide by the agreed payment arrangements.

Disclosure of information to the auditors
Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Reappointment of auditors
The auditors Deloitte LLP are deemed to be reappointed under section 487(2) of the Companies Act 2006.

Approved by the Board on 17 June 2019 and signed on its behalf by:

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DMA Beveridge
Director

LGH Hotels Management Limited

Statement of Directors' Responsibilities

The directors acknowledge their responsibilities for preparing the Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare the Group financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

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

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

In preparing the group financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

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

Independent Auditor's Report to the Members of LGH Hotels Management Limited

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of LGH Hotels Management Limited (the 'company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and the 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated and company statements of financial position;
- the consolidated and company statements of changes in equity;
- the consolidated cash flow statement; and
- the related notes 1 to 27.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (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 are required by ISAs (UK) to report in respect of the following matters 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 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.

We have nothing to report in respect of these matters.

LGH Hotels Management Limited

Independent Auditor's Report to the Members of LGH Hotels Management Limited (continued)

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the statements of directors' responsibilities, 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 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 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: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinion on other matter prescribed by the Companies Act 2006

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

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

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

Independent Auditor's Report to the Members of LGH Hotels Management Limited (continued)

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

We have nothing to report in respect of these matters.

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.

Helen Burridge
....
Helen Burridge (Senior Statutory Auditor)
For and on behalf of Deloitte LLP, Statutory Auditor

London, United Kingdom
17 June 2019

LGH Hotels Management Limited

Consolidated Income Statement

For the year ended 31 December 2018

	Note	2018 £ 000	2017 £ 000
Revenue	4	184,063	182,936
Cost of sales		(10,884)	(10,770)
Gross profit		**173,179**	**172,166**
Distribution costs		(7,802)	(7,613)
Administrative expenses		(122,276)	(125,927)
Other losses	5	(38)	-
Operating profit	6	**43,063**	**38,626**
Finance income		49	8
Finance costs		(29,716)	(29,922)
Net finance cost	7	(29,667)	(29,914)
Profit before tax		**13,396**	**8,712**
Tax charge	11	(2,791)	(3,059)
Profit for the year		**10,605**	**5,653**
Profit attributable to:			
Owners of the company		10,605	5,653

The above results were derived from continuing operations.

There is no other comprehensive income for the current or prior year, therefore a statement of other comprehensive income has not been prepared.

LGH Hotels Management Limited

Consolidated Statement of Financial Position
At 31 December 2018

	Note	2018 £ 000	2017 £ 000
Assets			
Non-current assets			
Property, plant and equipment	12	574,954	582,069
Intangible assets	13	54,189	54,189
		629,143	636,258
Current assets			
Inventories	15	434	387
Trade and other receivables	16	36,663	12,949
Income tax asset		623	819
Cash and cash equivalents	17	35,573	41,323
Other current financial assets	18	3,297	-
		76,590	55,478
Total assets		705,733	691,736
Equity and liabilities			
Equity			
Share capital	19	1,034	1,034
Share premium		102,312	102,312
Retained earnings		22,603	11,998
Equity attributable to owners of the company		125,949	115,344
Non-current liabilities			
Loans and borrowings	21	505,654	-
Deferred tax liabilities	22	43,326	43,613
		548,980	43,613
Current liabilities			
Trade and other payables	20	21,085	26,664
Loans and borrowings	21	9,719	506,115
		30,804	532,779
Total liabilities		579,784	576,392
Total equity and liabilities		705,733	691,736

Approved by the Board on 17 June 2019 and signed on its behalf by:

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DMA Beveridge
Director

LGH Hotels Management Limited

Company Statement of Financial Position

At 31 December 2018

	Note	2018 £ 000	2017 £ 000
Assets			
Non-current assets			
Property, plant and equipment	12	249	303
Investments	14	103,345	103,345
		103,594	103,648
Current assets			
Trade and other receivables	16	1,702	2,088
Cash and cash equivalents	17	4,900	5,018
		6,602	7,106
Total assets		**110,196**	**110,754**
Equity and liabilities			
Equity			
Share capital	19	1,034	1,034
Share premium		102,312	102,312
Retained earnings		(607)	(752)
Total equity		102,739	102,594
Current liabilities			
Trade and other payables	20	7,457	7,947
Income tax liability		-	213
		7,457	8,160
Total equity and liabilities		**110,196**	**110,754**

The notes on pages 16 to 43 form an integral part of these financial statements.

The company has taken advantage of section 408 of the Companies Act 2016 not to publish its own profit and loss account. The profit dealt with in the financial statements of the company is £144,740 (2017: profit of £231,457).

Approved by the Board on 17 June 2019 and signed on its behalf by:

DMA Beveridge
Director

Company registered number: 09861398

LGH Hotels Management Limited

Consolidated Statement of Changes in Equity
For the year ended 31 December 2018

	Share capital £ 000	Share premium £ 000	Retained earnings £ 000	Total equity £ 000
At 1 January 2017	1,034	102,312	6,345	109,691
Profit for the year	-	-	5,653	5,653
Total comprehensive income	-	-	5,653	5,653
At 31 December 2017	**1,034**	**102,312**	**11,998**	**115,344**

	Share capital £ 000	Share premium £ 000	Retained earnings £ 000	Total equity £ 000
At 1 January 2018	1,034	102,312	11,998	115,344
Profit for the year	-	-	10,605	10,605
Total comprehensive income	-	-	10,605	10,605
At 31 December 2018	**1,034**	**102,312**	**22,603**	**125,949**

LGH Hotels Management Limited

Company Statement of Changes in Equity

For the year ended 31 December 2018

	Share capital £ 000	Share premium £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2017	1,034	102,312	(984)	102,362
Profit for the year	-	-	232	232
Total comprehensive income	-	-	232	232
At 31 December 2017	**1,034**	**102,312**	**(752)**	**102,594**

	Share capital £ 000	Share premium £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2018	1,034	102,312	(752)	102,594
Profit for the year	-	-	145	145
Total comprehensive income	-	-	145	145
At 31 December 2018	**1,034**	**102,312**	**(607)**	**102,739**

LGH Hotels Management Limited

Consolidated Statement of Cash Flows
For the year ended 31 December 2018

	Note	2018 £ 000	2017 £ 000
Cash flows from operating activities			
Profit for the year		10,605	5,653
Adjustments to cash flows from non-cash items			
Depreciation	6	13,845	17,215
Finance income	7	(49)	(8)
Finance costs	7	29,716	29,922
Income tax expense	11	2,791	3,059
Loss on disposal of property plant and equipment	5	38	-
Provision for expected credit loss		(109)	(517)
		56,837	**55,324**
Working capital adjustments			
(Increase)/decrease of inventories		(47)	21
(Increase)/decrease of trade and other receivables		(23,792)	808
(Decrease)/increase of trade and other payables		(5,580)	922
Cash generated from operations		**27,418**	**57,075**
Income taxes paid	11	(2,695)	(3,858)
Net cash flow from operating activities		**24,723**	**53,217**
Cash flows from investing activities			
Acquisition of property plant and equipment		(6,768)	(5,319)
Interest received	7	49	8
Proceeds from sale of operations		-	440
Net cash flows from investing activities		(6,719)	(4,871)
Cash flows from financing activities			
Interest paid		(24,205)	(23,707)
Payment of debt issue costs		(6,524)	-
Payment of hedging fees		(5,710)	-
Proceeds from bank borrowings		519,000	-
Repayment of bank borrowings		(431,595)	-
Repayment of other borrowings		(74,720)	(13,737)
Net cash flows from financing activities		(23,754)	(37,444)
Net (decrease)/increase in cash and cash equivalents		**(5,750)**	**10,902**
Cash and cash equivalents at 1 January		41,323	30,421
Cash and cash equivalents at 31 December		**35,573**	**41,323**

Notes to the Financial Statements
For the year ended 31 December 2018

1 General information

LGH Hotels Management Limited (the company) is a private company limited by share capital, incorporated and domiciled in United Kingdom under the Companies Act 2006 and registered in England. The address of its registered office is disclosed in the company information. The principal activity of the company and its subsidiaries ("the group") is described in the Strategic Report.

2 Accounting policies

(a) Statement of compliance

The consolidated financial statements include the financial statements of the group. The parent entity financial statements present information about the company as a separate entity and not about its group.

The company financial statements have been prepared in accordance with Financial Reporting Standard 101 (FRS 101). The Consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and its interpretations adopted by the EU ("adopted IFRS's").

In presenting the parent entity financial statements together with the group financial statements, the company is taking advantage of the exemption in Section 408 of the Companies Act 2006, not to present its individual income statement. As permitted by FRS101, the company has taken advantage of the disclosure exemptions available under that standard in relation to financial instruments, capital management, presentation of a cash flow statement and certain related party transactions.

(b) Application of new and revised International Financial Reporting Standards (IFRSs)

The group and company has adopted the following new and revised IFRSs:

- IFRS 9 Financial Instruments[1]
- IFRS 15 Revenue from Contracts with Customers[1]

The group and company has not applied the following new and revised IFRSs that have been issued but are not effective:

- IFRS 16 Leases[2]

[1] Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
[2] Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

The impact of the adoption of IFRS 9 and 15 have no material impact on the results of the group or company. The impact of the adoption of IFRS 16 Leases on the group and company results is under review.

2 Accounting policies (continued)

(c) Basis of preparation

The financial statements have been prepared on the historical cost basis except for the revaluation of certain financial instruments, that are measured at fair value at the end of each reporting period.

The preparation of financial statements in conformity with adopted IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Judgements made by management in the application of adopted IFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment are discussed in note 3.

The presentation currency of the group and the company is pounds sterling. The functional currency of the company and its subsidiaries is pounds sterling. The financial statements are presented in thousands of pounds (£'000) unless stated otherwise.

(d) Going concern

The group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic and Directors' report.

The group meets its day-to-day working capital requirements from normal trading activities through its portfolio of hotels. The group's external debt facilities are secured until April 2023. The group's financial forecasts, taking account of the new loan terms and current trading performance, show that the group will be able to operate within the level of its current and future facilities and remain in compliance with the terms of its loan agreements.

After making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for at least the next twelve months. Accordingly, they continue to adopt the going concern basis in preparing the report and financial statements.

(e) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and its subsidiaries.

Control is achieved where the company has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to use its power to effect its returns. The company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the company obtains control over the subsidiary and ceases when the company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the period are included in the consolidated income statement from the date the company gains control until the date when the company ceases to control the subsidiary.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the group are eliminated in full on consolidation.

(f) Investments

In the company financial statements, investments in subsidiaries are stated at cost less provision for impairment.

2 Accounting policies (continued)

(g) Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

(h) Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

(i) Revenue recognition

The group earns revenue from the rental of rooms and conference facilities, the sale of food and beverage products, hotel management services and operating leases. This revenue is recognised in the accounting period when services are rendered or control of the product and has been transferred at an amount that reflects the consideration that the entity expects to be entitled for fulfilling its performance obligations.

Hotel management services
Revenue from the provision of hotel management services is recognised in the accounting period when the services are rendered. The company considers its performance obligation to be fulfilled when the services detailed in the hotel management contract have been performed. The transaction price of hotel management services is at rates specified in the hotel management contracts.

Rental income from operating leases
The policy for recognition of revenue from operating lease is described in the Leases section.

2 Accounting policies (continued)

(i) Revenue recognition (continued)

Rental of rooms and conference facilities
Revenue from rental of rooms and conference facilities is recognised in the accounting period when the room or facility had been provided. The company considers its performance obligation to be fulfilled over the period of the guest's stay. The transaction price of room and conference facility rental is at rates specified at time of booking.

Sale of food and beverages
Revenue from the sale of food and beverage is recognised in the accounting period when control of the product has been transferred. The company considers its performance obligation to be fulfilled at point of sale. The transaction price of food and beverage is the retail price of the product less value added taxes.

Contract liabilities
Contract liabilities and customer deposits are recognised in the statement of financial position when the group has received consideration but still has an obligation to deliver products and meet performance obligations for that consideration.

(j) Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the applicable effective interest rate.

(k) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Parts of an item of property, plant and equipment having different useful lives are accounted for as separate items.

Freehold and long leasehold land is not depreciated.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

(l) Depreciation

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold and long leasehold land) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

2 Accounting policies (continued)

(l) Depreciation (continued)

Depreciation is provided to write off the cost less estimated residual value, of each asset evenly over its expected useful life as follows:

Asset class	*Depreciation method and rate*
Freehold buildings	Periods up to 50 years
Long leasehold buildings	Shorter of 50 years and remaining lease period
Short leasehold land	Shorter of 50 years and remaining lease period
Plant & machinery	Between 5 and 15 years
Furniture and equipment	Between 3 and 20 years

(m) Impairment of non-financial assets

At the end of each reporting period, the group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). The impairment review is performed on an income generating unit basis.

Recoverable amount is the higher of fair value less costs to sell and 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.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

(n) Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value.

The group and company's non-derivative financial instruments include loans and receivables and other financial liabilities.

2 Accounting policies (continued)

(n) Financial instruments (continued)

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments. These include:

Trade and other receivables
Trade and other receivables are initially recognised at fair value, based upon discounted cash flows at prevailing interest rates for similar instruments, or at their nominal amount less expected credit losses if due in less than 12 months. Subsequent to initial recognition, trade and other receivables are valued at amortised cost less expected credit losses.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits. The cash and cash equivalents are stated at their nominal values, as this approximates to amortised cost.

Other financial liabilities
Other financial liabilities (including loans and borrowings and trade and other payables) are subsequently measured at amortised cost using the effective interest method.

Loans and borrowings
These are initially recognised at fair value, based upon the nominal amount outstanding. Subsequent to initial recognition, they are recorded at amortised cost. Borrowing costs arising on bank borrowings are expensed as incurred within financial expense using the effective interest method.

Trade and other payables
Trade and other payables are initially recognised at fair value, based upon the nominal amount outstanding. Subsequent to initial recognition, they are recorded at amortised cost.

Derivative financial instruments
Derivative financial instruments are contracts, the value of which is derived from one or more underlying financial instruments or indices, and include an interest rate cap.

Derivative financial instruments are recognised in the statement of financial position at fair value. Fair values are derived from prevailing market prices, discounted cash flow models or option pricing models as appropriate. In the statement of financial position, derivative financial instruments with positive fair values (unrealised gains) are included as assets and derivative financial instruments with negative fair values (unrealised losses) are included as liabilities.

The changes in the fair values of derivative financial instruments entered into for trading purposes are included in the income statement.

Effective interest method
The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

2 Accounting policies (continued)

(n) Financial instruments (continued)

Impairment of financial assets
The group always recognises expected credit losses for trade receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For financial assets carried at amortised cost, the amount of the expected credit loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate..

The carrying amount of the financial asset is reduced by the expected credit loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

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

De-recognition of financial assets
The group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. Any interest in such transferred financial assets that is created or retained by the group is recognised as a separate asset or liability.

De-recognition of financial liabilities
The group derecognises financial liabilities when, and only when, the group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Fair value measurement
Fair value disclosures are required for financial assets and liabilities. When measuring fair value of an asset or a liability, the group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

2 Accounting policies (continued)

(o) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first-in-first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs necessary to make the sale.

(p) 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 the group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Onerous contracts
Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. If the effect of the time value of money is material, the provision is discounted.

(q) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The group as lessor
Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

The group as lessee
Operating lease payments are recognised as an expense on a straight-line basis over the lease term. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

(r) Employee benefits

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

2 Accounting policies (continued)

(s) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax
The tax currently payable is based on taxable profit for the period. Taxable profit differs from 'profit before tax' as reported in the consolidated income statement and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax
Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the period
Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in the consolidated income statement or directly in equity, in which case, the current and deferred tax are also recognised in the consolidated income statement or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

3 Critical accounting judgements and sources of estimation uncertainty

In the application of the group's accounting policies, the directors of the company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

3 Critical accounting judgements and sources of estimation uncertainty (continued)

Critical judgements in applying the group's accounting policies
The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the group's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

Deferred tax
Management have identified that the decision on whether consumption of assets through use or sale for deferred tax purposes has a material impact on the deferred tax liability. Management have concluded that the short leasehold land and buildings should be consumed in full over the life of the lease. Long leasehold and freehold buildings are partially consumed through use in line with the depreciation policy. All other fixed assets are consumed through use.

Key sources of estimation uncertainty
There were no key sources of estimation uncertainty.

4 Revenue

The revenue of the group is derived from its principal activity of owning and operating hotels in the United Kingdom.

The analysis of the group's revenue for the year from continuing operations is as follows:

	2018 £ 000	2017 £ 000
Hotel and related income	184,063	182,936

5 Other gains and losses

The analysis of the group's other gains and losses for the year is as follows:

	2018 £ 000	2017 £ 000
Loss on disposal of property, plant and equipment	(38)	-

6 Operating profit

Profit for the period from continuing operations has been arrived at after charging / (crediting):

	2018 £ 000	2017 £ 000
Cost of inventories	10,428	10,309
Depreciation of property, plant and equipment (note 12)	13,845	17,215
Operating lease expense - property	5,304	5,473
Operating lease expense - other	312	511
(Gain)/loss on foreign exchange	(4)	10
Loss on disposal of property, plant and equipment (note 12)	38	-
Provision for expected credit loss (note 16)	(109)	(517)
Staff costs (note 8)	48,435	48,151

7 Finance income and costs

	2018 £ 000	2017 £ 000
Finance income		
Interest income on bank deposits	10	8
Other finance income	39	-
Total finance income	49	8
Finance costs		
Amortisation of financing fees	2,432	1,624
Interest expense on bank borrowings	23,004	19,077
Interest expense on other related party loans	1,867	9,221
Ineffective portion of changes in fair value of cash flow hedge	2,413	-
Total finance costs	29,716	29,922
Net finance costs	(29,667)	(29,914)

8 Staff costs

The aggregate payroll costs were as follows:

	2018 £ 000	2017 £ 000
Wages and salaries	44,736	44,599
Social security costs	2,929	2,894
Pension costs (note 24)	770	658
	48,435	48,151

The average number of persons employed by the group (including directors) during the year, analysed by category was as follows:

	2018 No.	2017 No.
Sales	73	64
Administrative	166	158
Hotel operations	1,905	1,738
	2,144	1,960

9 Directors' remuneration

Details of remuneration paid to directors during the current and prior period are detailed in note 27.

10 Auditors' remuneration

The analysis of the auditor's remuneration is as follows:

	2018 £ 000	2017 £ 000
Audit of company and consolidated financial statements	102	10
Audit of subsidiary financial statements	179	238
Total audit fees	281	248
All other non-audit services	410	911
	691	1,159

Group auditor's remuneration for non-audit fees relate to tax and restructuring services in the current and prior year.

Notes to the Financial Statements (continued)
For the year ended 31 December 2018 (continued)

11 Income tax

Tax charge in the income statement:

	2018 £ 000	2017 £ 000
Current taxation		
UK corporation tax charge for current year	3,957	5,116
Adjustment in respect of previous years	(879)	(1,355)
	3,078	3,761
Deferred taxation		
Reversal of temporary differences	(287)	(702)
Total tax charge for the year	**2,791**	**3,059**

Factors affecting current tax credit for the period
The tax on profit before tax for the year on ordinary activities is higher than the standard rate of corporation tax in the UK (2017: higher than the standard rate of corporation tax in the UK) of 19% (2017: 19.25%). Under Finance Act 2015, the UK corporation tax rate reduced from 20% to 19% on 1 April 2017.

The differences are reconciled below:

	2018 £ 000	2017 £ 000
Profit before tax	13,396	8,712
Corporation tax at standard rate	2,545	1,677
Income not taxable for tax purposes	(54)	(94)
Expenses not deductible for tax purposes	493	4,281
Property valuation movement	(190)	(68)
Indexation movement	-	(1,258)
Change in recognised deferred tax assets	1,335	9
Group relief not recognised	(629)	89
Adjustment in respect of previous years	(879)	(1,355)
Effect of changes in tax rate	170	(222)
Total tax charge for the year	**2,791**	**3,059**

Factors affecting the tax charge in future years
Under Finance Act 2016, which was substantially enacted on 15 September 2016, the rate that will apply from 1 April 2020 was reduced from 18% to 17%. These rate reductions will reduce the future tax charge of the group.

Notes to the Financial Statements (continued)
For the year ended 31 December 2018 (continued)

12 Property, plant and equipment

Group

	Land and buildings £ 000	Furniture, fittings and equipment £ 000	Plant & machinery £ 000	Total £ 000
Cost				
At 1 January 2017	508,686	45,565	51,663	605,914
Additions	-	4,672	647	5,319
Transfers	19,379	(6,022)	(13,357)	-
At 1 January 2018	528,065	44,215	38,953	611,233
Additions	-	6,234	534	6,768
Disposals	-	(40)	-	(40)
Transfers	3,767	(6,825)	1,456	(1,602)
At 31 December 2018	531,832	43,584	40,943	616,359
Accumulated depreciation				
At 1 January 2017	1,659	6,338	3,952	11,949
Charge for year	8,241	5,788	3,186	17,215
At 1 January 2018	9,900	12,126	7,138	29,164
Charge for the year	4,833	5,763	3,249	13,845
Eliminated on disposal	-	(2)	-	(2)
Transfers	-	(1,014)	(588)	(1,602)
At 31 December 2018	14,733	16,873	9,799	41,405
Net book value				
At 31 December 2018	**517,099**	**26,711**	**31,144**	**574,954**
At 31 December 2017	**518,165**	**32,089**	**31,815**	**582,069**

Included within the net book value of land and buildings above is £236.2m (2017: £234.1m) in respect of freehold land and buildings, £82.9m (2017: £82.1m) in respect of long leasehold land and buildings and £198.0m (2017: £201.9m) in respect of short leasehold land and buildings.

Land and buildings with a net book value of £517.1m (2017: £518.2m) are pledged as security for the group's debt (note 21).

12 Property, plant and equipment (continued)

Company

	Furniture, fittings and equipment £ 000	Total £ 000
Cost		
At 1 January 2017	299	299
Additions	164	164
At 1 January 2018	463	463
Additions	108	108
At 31 December 2018	571	571
Accumulated depreciation		
At 1 January 2017	29	29
Charge for year	131	131
At 1 January 2018	160	160
Charge for the year	162	162
At 31 December 2018	322	322
Carrying amount		
At 31 December 2018	**249**	**249**
At 31 December 2017	**303**	**303**

13 Intangible assets

Group

	Goodwill £ 000	Total £ 000
Cost		
At 31 December 2017	54,189	54,189
At 31 December 2018	54,189	54,189
Net book value		
At 31 December 2018	**54,189**	**54,189**
At 31 December 2017	**54,189**	**54,189**

13 Intangible assets (continued)

Goodwill has been recognised in respect of the following business acquisitions:

	Goodwill £ 000
Ribbon Finance Limited (formerly LRG Finance Limited) and its subsidiaries	54,189
	54,189

The group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. The goodwill net book value is supported on a fair value less cost to sell basis, compiled using a third-party valuation of the portfolio which utilised a discounted cash flow methodology. There was no difference in valuation methodology compared to the prior year. No impairment of goodwill has been recognised (2017: £Nil).

14 Investments

Company

Subsidiaries	**£ 000**
Cost	
At 31 December 2017	103,345
At 31 December 2018	103,345
Net book value	
At 31 December 2018	**103,345**
At 31 December 2017	**103,345**

Details of the subsidiaries as at 31 December 2018 are as follows:

Name of subsidiary	Principal activity	Ownership interest in ordinary shares (%) 2018	2017
Ribbon Holdco Limited*	Investment	100%	100%
Ribbon Mezzco Limited	Investment	100%	100%
Ribbon Midco Limited	Investment	100%	100%
Ribbon Bidco Limited	Investment	100%	100%
Ribbon Acquisition Limited	Investment	100%	100%
Ribbon Finance Limited	Non-trading (liquidation)	0%	100%
Ribbon Investment Limited	Non-trading (liquidation)	0%	100%
Ribbon HI Limited	Non-trading (liquidation)	0%	100%
HI (Guildford) Limited	Non-trading (liquidation)	0%	100%
NAS Cobalt No.2 Limited	Non-trading (liquidation)	0%	100%
HI UK Limited	Non-trading (liquidation)	0%	100%
Ribbon Health and Fitness Limited	Non-trading (liquidation)	0%	100%

14 Investments (continued)

Name of subsidiary	Principal activity	Ownership interest in ordinary shares (%) 2018	2017
Leased Hotels Limited	Non-trading (liquidation)	0%	100%
HI (Leicester) Limited	Non-trading (liquidation)	0%	100%
HI (Norwich) Limited	Non-trading (liquidation)	0%	100%
HI Finance Properties Limited	Non-trading (liquidation)	0%	100%
HI (Carlisle) Limited	Non-trading (liquidation)	0%	100%
HI (Coventry) Limited	Non-trading (liquidation)	0%	100%
HI (High Wycombe) Limited	Non-trading (liquidation)	0%	100%
HI (Eastleigh) Limited	Non-trading (liquidation)	0%	100%
HI (Basildon) Limited	Non-trading (liquidation)	0%	100%
HI (Regents Park) Limited	Non-trading (liquidation)	0%	100%
Ribbon Hotels Limited	Non-trading (liquidation)	0%	100%
HI (Birmingham City) Limited	Non-trading (liquidation)	0%	100%
HI (Colchester) Limited	Non-trading (liquidation)	0%	100%
HI (Milton Keynes) Limited	Non-trading (liquidation)	0%	100%
HI (Chester South) Limited	Non-trading (liquidation)	0%	100%
HI (Lancaster) Limited	Non-trading (liquidation)	0%	100%
HI (London Heathrow M4 J4) Limited	Non-trading (liquidation)	0%	100%
HI (London Heathrow M4 J4) No.2 Limited	Non-trading (liquidation)	0%	100%
HI (Brentwood) Limited	Non-trading (liquidation)	0%	100%
HI (Ipswich) Limited	Non-trading (liquidation)	0%	100%
HI (Birmingham M6 J7) Limited	Non-trading (liquidation)	0%	100%
HI (Edinburgh) Limited	Non-trading (liquidation)	0%	100%
HI (London Heathrow Ariel) Limited	Non-trading (liquidation)	0%	100%
Kensington PH Limited	Non-trading (liquidation)	0%	100%
CP Heathrow	Non-trading (liquidation)	0%	100%
SC Hotels and Holidays Limited	Non-trading (liquidation)	100%	100%
Pendigo Hotels Limited	Non-trading (liquidation)	0%	100%
HI GC Limited	Non-trading (liquidation)	0%	100%
Ribbon Hotels Group (UK) Limited	Non-trading (liquidation)	100%	100%
HI (Brent Cross) Limited	Non-trading (liquidation)	0%	100%
HI (Maidenhead) Limited	Non-trading (liquidation)	0%	100%
HI (Strathclyde) Limited	Non-trading (liquidation)	0%	100%
Ribbon Holdings Limited	Non-trading (liquidation)	0%	100%
Ribbon Holdings No.2 Limited	Non-trading (liquidation)	0%	100%
Centre Hotels (Cranston) Limited	Non-trading (liquidation)	100%	100%
Ribbon IG Limited	Non-trading (liquidation)	0%	100%
Ribbon Intermediate No.1 Limited	Non-trading (liquidation)	0%	100%

14 Investments (continued)

Name of subsidiary	Principal activity	Ownership interest in ordinary shares (%) 2018	2017
Ribbon Intermediate No.2 Limited	Non-trading (liquidation)	0%	100%
Ribbon Intermediate No.3 Limited	Non-trading (liquidation)	0%	100%
Ribbon Intermediate No.4 Limited	Non-trading (liquidation)	0%	100%
Ribbon Intermediate No.5 Limited	Non-trading (liquidation)	0%	100%
Ribbon Birmingham Limited	Hotel ownership & operations	100%	100%
Ribbon Heathrow Limited	Hotel ownership & operations	100%	100%
Ribbon Manchester Airport Limited	Hotel ownership & operations	100%	100%
Ribbon Basildon Limited	Hotel ownership & operations	100%	100%
Ribbon Brentwood Limited	Hotel ownership & operations	100%	100%
Ribbon Bristol Limited	Hotel ownership & operations	100%	100%
Ribbon Cambridge Limited	Hotel ownership & operations	100%	100%
Ribbon Cardiff Limited	Hotel ownership & operations	100%	100%
Ribbon Edinburgh Limited	Hotel ownership & operations	100%	100%
Ribbon Glasgow Airport Limited	Hotel ownership & operations	100%	100%
Ribbon Guildford Limited	Hotel ownership & operations	100%	100%
Ribbon Bloomsbury Limited	Hotel ownership & operations	100%	100%
Ribbon Brent Cross Limited	Hotel ownership & operations	100%	100%
Ribbon Heathrow Ariel Limited	Hotel ownership & operations	100%	100%
Ribbon Heathrow M4 J4 Limited	Hotel ownership & operations	100%	100%
Ribbon Regents Park Limited	Hotel ownership & operations	100%	100%
Ribbon Sutton Limited	Hotel ownership & operations	100%	100%
Ribbon Maidenhead Limited	Hotel ownership & operations	100%	100%
Ribbon Milton Keynes Limited	Hotel ownership & operations	100%	100%
Ribbon Oxford Limited	Hotel ownership & operations	100%	100%

* direct subsidiary of the company

On 22 February 2017, Ribbon Acquisition Limited incorporated 20 new subsidiaries. On 1 August 2017, the group completed a corporate restructure aimed at structure simplification whereby all the trading hotels were transferred into the newly incorporated subsidiaries of Ribbon Acquisition Limited.

At 31 December 2017, all other subsidiaries, excluding the investment, hotel owning and operating subsidiaries, had been placed into member voluntary liquidation. By 31 December 2018 all liquidations had been completed except for Ribbon Hotels Group (UK) Limited, SC Hotels and Holidays Limited and Centre Hotels (Cranston) Limited.

All of the subsidiaries listed above have a registered office at 10 Queens Street Place, London, United Kingdom, EC4R 1AG.

15 Inventories

Group

	2018 £ 000	2017 £ 000
Consumables	434	387

16 Trade and other receivables

Group

	2018 £ 000	2017 £ 000
Trade receivables	7,739	7,645
Provision for expected credit loss	(279)	(388)
Net trade receivables	7,460	7,257
Prepayments	4,773	5,103
Other receivables	432	165
Receivables from parent entities	18,007	424
Receivables from other related parties	5,991	-
	36,663	12,949

Company

	2018 £ 000	2017 £ 000
Trade receivables	267	355
Provision for expected credit loss	(21)	-
Net trade receivables	246	355
Prepayments	58	138
Other receivables	243	-
Receivables from parent entities	-	424
Receivables from subsidiary entities	661	1,171
Receivables from other related parties	494	-
	1,702	2,088

17 Cash and cash equivalents

Group

	2018 £ 000	2017 £ 000
Cash at bank	35,573	41,323

Company

	2018 £ 000	2017 £ 000
Cash at bank	4,900	5,018

18 Other financial assets

Group

	2018 £ 000	2017 £ 000
Current financial assets		
Derivative assets held for risk management	3,297	-

19 Share capital

Allotted, called up and fully paid shares

	2018 No.	2018 £	2017 No.	2017 £
A Ordinary shares of £1	1,033,451	1,033,451	1,033,451	1,033,451
B Ordinary shares of £0.01	100,000	1,000	100,000	1,000
	1,133,451	1,034,451	1,133,451	1,034,451

20 Trade and other payables

Group

	2018 £ 000	2017 £ 000
Trade payables	2,971	3,365
Accrued expenses	10,280	10,754
Social security and other taxes	2,564	2,690
Other payables	5,093	2,855
Payables to parent entities	-	7,000
Payables to other related parties	177	-
	21,085	26,664

Company

	2018 £ 000	2017 £ 000
Trade payables	167	56
Accrued expenses	514	1,107
Social security and other taxes	201	108
Other payables	1	100
Payables to parent entities	4,883	6,576
Payables to subsidiary entities	1,514	-
Payables to other related parties	177	-
	7,457	7,947

The payables to related parties bear no interest and are repayable on demand.

21 Loans and borrowings

Group

	2018 £ 000	2017 £ 000
Non-current loans and borrowings		
Bank borrowings	505,654	-

Group

	2018 £ 000	2017 £ 000
Current loans and borrowings		
Bank borrowings	9,719	427,806
Loans from parent entities	-	78,309
	9,719	506,115

The group has the following principal loans:

(a) Senior bank borrowings

On 27 November 2015, the group secured bank borrowings of £357.0m and incurred fees of £4.8m on issue of this facility which are amortised over the period of the loan and have a current book value of £Nil (2017: £1.5m). Repayment of the principal is due at maturity of a three-year term. The loan carried interest at 2.88% above 3-month Libor per annum payable on a quarterly basis. During the year, the group repaid capital of £357.0m and at 31 December 2018 the outstanding principle was £Nil (2017: £357.0m). Accrued interest of £Nil (2017: £4.7m) is included in current loans and borrowings. The loan was settled on 4 April 2018.

On 4 April 2018, the group secured bank borrowings of £449.8m and incurred fees of £5.6m on issue of this facility which are amortised over the period of the loan and have a non-current book value of £4.9m (2017: £Nil). Repayment of 0.25% of the principal is due each interest payment date and the balance due at the maturity of a five-year term. The current portion of the principle is £4.5m (2017: £Nil) and is included in current loans and borrowings. The loan carries interest at 3.19% above 3-month Libor per annum payable on a quarterly basis. Accrued interest of £3.5m (2017: £Nil) is included in current loans and borrowings. During the year, the group repaid capital of £2.2m and at 31 December 2018 the outstanding non-current principle was £443.1m (2017: £Nil).

(b) Mezzanine bank borrowings

On 27 November 2015, the group secured bank borrowings of £66.6m. Repayment of the principal is due at maturity of a three-year term. The loan carried interest at 7.15% per annum payable on a quarterly basis. During the year, the group repaid capital of £66.6m and at 31 December 2018 the outstanding principle was £Nil (2017: £66.6m). Accrued interest of £Nil (2017: £1.0m) is included in current loans and borrowings. The loan was settled on 4 April 2018.

On 4 April 2018, the group secured bank borrowings of £69.2m and incurred fees of £0.9m on issue of this facility which are amortised over the period of the loan and have a current book value of £0.7m (2017: £Nil). Repayment of 0.25% of the principal is due each interest payment date and the balance is due at the maturity of a five-year term. The current portion of the principle is £0.7m (2017: £Nil) and is included in current loans and borrowings. The loan carries interest at 6.25% above 3-month Libor per annum payable on a quarterly basis. Accrued interest of £1.0m (2017: £Nil) is included in current loans and borrowings. During the year, the group repaid capital of £0.3m and at 31 December 2018 the outstanding non-current principle was £68.2m (2017: £Nil)

21 Loans and borrowings (continued)

(c) Shareholder's loan

On 1 December 2015, the group secured a loan of £89.4m from Ribbon Holdings Sub Sarl. Repayment of the principal is due at maturity of a three-year term. The loan carried interest at 11% per annum. During the year, the group repaid capital of £74.7m and at 31 December 2018 the outstanding balance was £Nil (2017: £74.7m). Accrued interest of £Nil (2017: £3.6m) is included in current loans and borrowings. The loan was settled on 4 April 2018.

The above bank borrowings are secured over the land and buildings of the group with a net book value of £517.1m (2017: £518.2m).

22 Deferred tax

	Accelerated capital allowances £ 000	Property temporary differences £ 000	Total £ 000
At 1 January 2018	44,842	(1,229)	43,613
Charge to income statement	(1,516)	1,229	(287)
	43,326	-	43,326

23 Obligations under leases

Operating lease arrangements
At the balance sheet date, the group had outstanding commitments for future minimum lease payments under non-cancellable leases over long and short leasehold land and buildings, which fall due as follows:

	2018 £ 000	2017 (restated) £ 000
Within one year	4,451	4,451
In two to five years	19,085	19,085
In over five years	369,924	382,335
	393,460	405,871

The amount of variable turnover-based operating lease payments recognised as an expense during the year was £0.9m (2017: £1.0m).

24 Pension and other schemes

Defined contribution pension scheme
The group operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the group to the scheme and amounted to £769,560 (2017: £658,200). Contributions amounting to £Nil (2017: £Nil) were outstanding at year end.

25 Commitments

Capital commitments
There are no major capital expenditure commitments as at 31 December 2018 (2017: £Nil).

The total amount contracted for but not provided in the financial statements was £Nil (2017: £Nil).

26 Financial instruments

(a) Categories of financial instruments and fair values

The following table shows the carrying amounts and fair values of the group's financial assets and financial liabilities.

	Net book value 2018 £ 000	Fair value 2018 £ 000	Net book value 2017 £ 000	Fair value 2017 £ 000
Financial assets				
Trade and other receivables	31,890	31,890	7,846	7,846
Cash and cash equivalents	35,573	35,573	41,323	41,323
Derivative assets	3,297	3,297	-	-
	70,760	70,760	49,169	49,169

(a) Categories of financial instruments and fair values (continued)

	Net book value 2018 £ 000	Fair value 2018 £ 000	Net book value 2017 £ 000	Fair value 2017 £ 000
Financial liabilities				
Trade and other payables	21,085	21,085	26,664	26,664
Loans and borrowings	515,373	515,373	506,115	506,115
	536,458	536,458	532,779	532,779

(b) Financial risk management objectives and policies

The Board of directors has the overall responsibility for the establishment and oversight of the risk management framework. The senior management is responsible for developing and monitoring the risk management policies and reports regularly to the Board of directors.

The 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 group's activities.

The group's principal financial instruments arise directly from its operations. The main purpose of these financial instruments is to raise finance for the group's acquisitions and ongoing operations. It is, and has been throughout the period under review, the group's policy that no trading in financial instruments shall be undertaken.

The main risk arising from the group's financial instruments are credit risk, liquidity risk and interest rate risk. The Board reviews and agrees policies for managing these risks and is summarized below.

26 Financial instruments (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk
Credit risk is the risk of financial loss to the group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the group's receivables from customers and bank balances.

Trade receivables
The group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, the group assesses its credit risk as low due to the nature of the hotel industry in which it operates with exposure spread over a large number of counterparties and customers. All customers who wish to trade on credit terms are subject to credit verification procedures. Receivable balances are monitored on an ongoing basis and provisions are made when there is objective evidence of impairment. The maximum exposure is equal to the carrying amount but this risk is considered as low.

Cash and cash equivalents
Credit risk arising from cash and cash equivalents relate to funds deposited with the banking institutions. The group limits its exposure to credit risk by depositing funds only with banks with a high credit rating. The maximum exposure is equal to the carrying amount but this risk is considered as low.

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 they fall due without incurring unacceptable losses or risking damage to the group's reputation. The group uses cash flow forecasting tool to monitor its cash flow requirements.

The following table details the group's contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The amounts are gross and undiscounted, and include estimated interest payments based on earliest date on which the group can be required to pay.

31 December 2017		Contractual cash flows	
	Net book value	<1 year	1-5 years
	£ 000	£ 000	£ 000
Trade and other payables	26,664	26,664	-
Loans and borrowings	506,115	507,583	-
	534,247	534,247	-

31 December 2018		Contractual cash flows	
	Net book value	<1 year	1-5 years
	£ 000	£ 000	£ 000
Trade and other payables	21,085	21,085	-
Loans and borrowings	515,373	9,719	511,215
	542,019	30,804	511,215

26 Financial instruments (continued)

(b) Financial risk management objectives and policies (continued)

Interest rate risk
Interest rate risk is the risk that the fair value or future cash flows of the group's interest bearing financial instruments will fluctuate because of changes in market interest rates. The group is exposed to interest rate risk because it borrows funds at interest rates based on Libor.

The group and company interest bearing financial assets and liabilities is as follows:

Group

	2018 £ 000	2017 £ 000
Variable rate instrument		
Loans and borrowings	(516,455)	(357,025)
Cash and cash equivalents	35,573	41,323
	(480,882)	(315,702)

<u>*Cash flow sensitivity analysis for variable rate instruments*</u>
An increase of 100 basis points in interest rates during the period would have decreased group profit by £4.0m and would have no impact on company profit. This analysis assumes that all other variables remain constant.

<u>*Cash flow hedge*</u>
During the year, group purchased an interest rate cap of 2% (base plus margin) on the senior and mezzanine bank loans. A derivative asset of £2.9m and £0.4m (2017: £Nil and £Nil) was recognised respectively.

(c) Capital management

The group manages its capital to ensure that entities in the group will be able to continue as going concerns while maximising the return to shareholders through the optimisation of the debt and equity balance.

The group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the group may adjust the distributions to the members, return members interest or receive additional members' interest. The group is not subject to any externally imposed capital requirements.

The group reviews the capital structure on a regular basis. As part of this review, the management considers the gearing ratio determined as the proportion of net debt to equity. The gearing ratio at the end of reporting period was as follows:

	2018 £ 000	2017 £ 000
Debt [1]	515,373	506,115
Cash and cash equivalents	(35,573)	(41,323)
Net debt	479,800	464,792
Equity [2]	125,949	115,344
Net debt to equity ratio	3.81	4.03

[1] Debt is defined as long- and short-term borrowings.
[2] Equity includes share capital, share premium and retained reserves of the group.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018 (continued)

27 Parent and ultimate parent undertaking

(a) Parent and ultimate controlling party

The immediate parent of the company is UK Investment Company 210 Limited, a company incorporated in the United Kingdom. Between 1 January 2018 and 3 April 2018 the ultimate controlling party was Apollo Global Management LLC, a company incorporated in Delaware, United States of America. The company's ultimate controlling party from 4 April 2018 was Amir Dayan, an Israeli citizen.

The largest group to consolidate these financial statements from 4 April 2018 is that of Vivion Investments Sarl. The consolidated financial statements of Vivion Investments Sarl for the year ended 31 December 2018 are available to the public and may be obtained from its registered address and principal place of business, 155 rue Cents, L-1319, Luxembourg.

(b) Transactions with key management personnel

Remuneration of key management personnel

The key management personnel of the group are considered to be the directors of the company. The remuneration of directors during the period was as follows:

	2018 £ 000	2017 £ 000
Short term benefits	614	1,456
Post-employment benefits	40	53
	654	1,509

Remuneration of the highest paid director

	2018 £ 000	2017 £ 000
Short term benefits	248	1,104
Post-employment benefits	17	30
	265	1,134

(c) Other related party transactions

Balances and transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the group and its associates are disclosed below.

Trading transactions

During the period the group received revenue and incurred costs related to asset management services provided to related parties.

Notes to the Financial Statements (continued)
For the year ended 31 December 2018 (continued)

27 Parent and ultimate parent undertaking (continued)

	2018 £ 000	2017 £ 000
Revenue received		
Lapithus Hotel Management GmbH	-	113
Lapithus Management Sarl	334	1,335
	334	1,448

	2018 £ 000	2017 £ 000
Costs incurred		
Lapithus Hotel Management GmbH	-	115
Lapithus Management Sarl	500	2,000
	500	2,115

Loans and trading balances made to and by related parties
The following amounts were outstanding at the balance sheet date:

	2018 £ 000	2017 £ 000
Amounts owed to related parties		
Luxembourg Investment Company 210 Sarl*	2,304	-
Zinc Hotels Mezzco Limited	177	-
Ribbon Holdings Sarl*	-	78,309
Ribbon Holdings Sub Sarl*	-	7,000
	2,481	85,309
Amounts owed by related parties		
Jersey Investment Company 210 Limited*	9	-
UK Investment Company 210 Limited*	18,004	-
Jersey Investment Company 211 Limited	16	-
UK Silver IPCO Limited	19	-
UK Investment Company 211 Limited	5,500	-
Zinc Hotels Holdings Limited	9	-
Zinc Hotels Mezzanine Holdco Limited	8	-
Zinc Hotels Midco Limited	183	-
Zinc Hotels Acquisition 210 Limited	134	-
Zinc Cobham Hotels Limited	14	-
Zinc Croydon Hotels Limited	11	-
Zinc East Midlands Hotels Limited	12	-
Zinc Leeds Hotels Limited	11	-
Zinc Northampton Hotels Limited	11	-
Zinc Nottingham Hotels Limited	13	-
Zinc Puckrup Hall Hotels Limited	13	-
Zinc Watford Hotels Limited	13	-
Zinc York Hotels Limited	15	-
Ribbon Holdings Sub Sarl*	-	424
	23,995	424

* Parent entity of the group.

27 Parent and ultimate parent undertaking (continued)

Ribbon Holdings Sarl and Ribbon Holdings Sub Sarl were the parent entities of LGH Hotels Management Limited up to 3 April 2018. All other related parties are under common control.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for expected credit losses in respect of the amounts owed by related parties.