Independent auditors' report to the members of PPHE hotel group limited

Report on the audit of the consolidated financial statements
Opinion
We have audited the consolidated financial statements of PPHE Hotel Group Limited (the Group), which comprises the consolidated statement of financial position as at 31 December 2021, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements:

- give a true and fair view of the financial position of the Group as at 31 December 2021 and of its financial performance and its cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the consolidated financial statements' section of our report. We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), including the UK FRC's Ethical Standard as applied to listed public interest entities. 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.

Key audit matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2021. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

Key audit matters 2021
1. Assessment of liquidity risks
As discussed in Note 1c to the consolidated financial statements, in 2021, COVID-19 continued to cause severe disruption to the global hospitality sector, with government imposed domestic and international travel restrictions and social distancing measures in place during the year. Note 1c describes the impact of the pandemic on the Group's business in 2021 and management's actions.

We determined that this situation is a significant audit risk due to possible breaches of loan covenants, and due to the effects of uncertainty of adequate funding on the Group's assessment of liquidity risk. This assessment is largely based on management expectations and estimates. The assumptions are affected by subjective elements such as the estimate of expected future cash flows, forecasted results and margins from operational activities, and the ability to meet financial covenants. These estimates are based on assumptions, including expectations of future economic and market developments related to the long-term impact of COVID-19.

How our audit addressed the matter
We evaluated the Directors' assessment of liquidity risk and performed the following procedures:

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

2. Decentralised operations
As discussed in Notes 1b and 29 to the consolidated financial statements, the Group comprises more than 100 legal entities, grouped in five reportable segments. The geographical decentralised structure, multiplicity of IT systems and the number of Group entities (components) increase the complexity of the Group's control environment and thus, affects our ability as group auditor to obtain an appropriate level of understanding of these components. Also, in our role as group auditor it is essential that we obtain an appropriate level of understanding of the significant components in the Group and the audit work performed by the component's auditors.

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

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

Other information included in the Group's 2021 Annual Report
Other information consists of the information included in the 2021 Annual Report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent auditors' report to the members of PPHE hotel group limited continued

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations or has no realistic alternative but to do so.

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

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

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

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

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

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

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

Report on other legal and Regulatory Requirements:
Pursuant to Section 9.8.10 (1) and (2) of the Listing Rules in the United Kingdom, we were engaged to review Management's statement pursuant to Section 9.8.6 R (6) of the Listing Rules of the Financial Conduct Authority that relate to provisions 6 and 24 to 29 of the UK Corporate Governance Code and Management Board's statement pursuant to Section 9.8.6 R (3) of Listing Rules of the Financial Conduct Authority in the financial year 2021 Including in the "viability statement" set out on page 35 of the management report and in the section "Going concern reporting according to the UK Corporate Governance Code" set out on page 135 of the management report. We have no exceptions to report.

The partner in charge of the audit resulting in this independent auditors' report is Ronen Kimchi.

RONEN KIMCHI
(For and on behalf of Kost Forer Gabbay & Kasierer, member of Ernst & Young Global)
Tel Aviv, Israel
28 FEBRUARY 2022

Consolidated statement of financial position

For the year ended 31 December 2021

	Note	As at 31 December 2021 £'000	2020 £'000
Assets			
Non-current assets:			
Intangible assets	4	**14,290**	17,754
Property, plant and equipment	5	**1,236,000**	1,201,358
Right-of-use assets	19	**215,921**	223,793
Investment in joint ventures	6	**4,315**	4,741
Other non-current assets	7	**16,386**	15,958
Restricted deposits and cash	14(b)	**8,121**	2,261
Deferred income tax asset	27	**10,221**	6,724
		1,505,254	1,472,589
Current assets:			
Restricted deposits and cash	14(b)	**5,204**	4,777
Inventories		**1,840**	2,260
Trade receivables	8	**6,811**	3,473
Other receivables and prepayments	9	**19,435**	8,044
Other current financial assets	10	**22**	27
Cash and cash equivalents	11	**136,802**	114,171
		170,114	132,752
Total assets		**1,675,368**	1,605,341

	Note	As at 31 December 2021 £'000	2020 £'000
Equity and liabilities			
Equity:	12		
Issued capital		**–**	–
Share premium		**131,229**	131,389
Treasury shares		**(3,482)**	(3,482)
Foreign currency translation reserve		**3,806**	20,804
Hedging reserve		**(434)**	(703)
Accumulated earnings		**147,350**	161,587
Attributable to equity holders of the parent		**278,469**	309,595
Non-controlling interests		**168,742**	95,358
Total equity		**447,211**	404,953
Non-current liabilities:			
Borrowings	15	**729,284**	721,006
Provision for concession fee on land	16	**5,057**	5,399
Financial liability in respect of Income Units sold to private investors	17	**124,551**	126,155
Other financial liabilities	18	**253,362**	244,818
Deferred income taxes	27	**7,236**	8,472
		1,119,490	1,105,850
Current liabilities:			
Trade payables		**16,650**	6,502
Other payables and accruals	20	**53,177**	51,667
Borrowings	15	**38,840**	36,369
		108,667	94,538
Total liabilities		**1,228,157**	1,200,388
Total equity and liabilities		**1,675,368**	1,605,341

The accompanying notes are an integral part of the consolidated financial statements. Date of approval of the financial statements 28 February 2022. Signed on behalf of the Board by Boris Ivesha and Daniel Kos.

Boris Ivesha
President & Chief Executive Officer

Daniel Kos
Chief Financial Officer & Executive Director

Consolidated income statement

For the year ended 31 December 2021

	Note	Year ended 31 December 2021 £'000	2020 £'000
Revenues	21	**141,377**	101,787
Operating expenses	22	**(113,808)**	(110,870)
EBITDAR		**27,569**	(9,083)
Rental expenses	19	**(2,504)**	(1,004)
EBITDA		**25,065**	(10,087)
Depreciation and amortisation	4,5,19	**(43,283)**	(46,624)
EBIT		**(18,218)**	(56,711)
Financial expenses	23	**(31,369)**	(35,526)
Financial income	24	**333**	391
Other expenses	25a	**(9,418)**	(9,736)
Other income	25b	**3,784**	10,299
Net expenses for financial liability in respect of Income Units sold to private investors	26	**(1,949)**	(2,579)
Share in results of joint ventures	6	**(718)**	(826)
Loss before tax		**(57,555)**	(94,688)
Income tax benefit	27	**5,051**	724
Loss for the year		**(52,504)**	(93,964)
Loss attributable to:			
Equity holders of the parent		**(52,129)**	(81,731)
Non-controlling interests		**(375)**	(12,233)
		(52,504)	(93,964)
Basic and diluted loss per share (in Pound Sterling)	28	**(1.23)**	(1.92)

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

Consolidated statement of comprehensive income

For the year ended 31 December 2021

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Loss for the year	**(52,504)**	(93,964)
Other comprehensive income (loss) to be recycled through profit and loss in subsequent periods:*		
Loss from cash flow hedges	**507**	(90)
Foreign currency translation adjustments of foreign operations	**(23,083)**	16,867
Other comprehensive income (loss)	**(22,576)**	16,777
Total comprehensive loss	**(75,080)**	(77,187)
Total comprehensive loss attributable to:		
Equity holders of the parent	**(68,858)**	(69,069)
Non-controlling interests	**(6,222)**	(8,118)
	(75,080)	(77,187)

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

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

Consolidated statement of changes in equity

For the year ended 31 December 2021

In £'000	Issued capital[1]	Share premium	Treasury shares	Foreign currency translation reserve	Hedging reserve	Accumulated earnings	Attributable to equity holders of the parent	Non-controlling interests	Total equity
Balance as at 1 January 2021	**–**	**131,389**	**(3,482)**	**20,804**	**(703)**	**161,587**	**309,595**	**95,358**	**404,953**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(52,129)**	**(52,129)**	**(375)**	**(52,504)**
Other comprehensive income (loss) for the year	**–**	**–**	**–**	**(16,998)**	**269**	**–**	**(16,729)**	**(5,847)**	**(22,576)**
Total comprehensive income (loss)	**–**	**–**		**(16,998)**	**269**	**(52,129)**	**(68,858)**	**(6,222)**	**(75,080)**
Share-based payments	**–**	**1,182**	**–**	**–**	**–**	**–**	**1,182**	**86**	**1,268**
Exercise of options settled in cash	**–**	**(1,342)**	**–**	**–**	**–**	**–**	**(1,342)**	**–**	**(1,342)**
Transactions with non-controlling interests (see Note 6)	**–**	**–**	**–**	**–**	**–**	**37,892**	**37,892**	**79,520**	**117,412**
Balance as at 31 December 2021		**131,229**	**(3,482)**	**3,806**	**(434)**	**147,350**	**278,469**	**168,742**	**447,211**
Balance as at 1 January 2020	–	130,260	(3,636)	8,094	(655)	243,233	377,296	103,465	480,761
Loss for the year	–	–	–	–	–	(81,731)	(81,731)	(12,233)	(93,964)
Other comprehensive income (loss) for the year	–	–	–	12,710	(48)	–	12,662	4,115	16,777
Total comprehensive income (loss)	–	–	–	12,710	(48)	(81,731)	(69,069)	(8,118)	(77,187)
Issue of shares	–	870	154	–	–	–	1,024	–	1,024
Share-based payments	–	259	–	–	–	85	344	75	419
Transactions with non-controlling interests (see Note 6)	–	–	–	–	–	–	–	(64)	(64)
Balance as at 31 December 2020	–	131,389	(3,482)	20,804	(703)	161,587	309,595	95,358	404,953

1 No par value.

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

Consolidated statement of cash flows

For the year ended 31 December 2021

	Note	Year ended 31 December 2021 £'000	2020 £'000
Cash flows from operating activities:			
Loss for the year		**(52,504)**	(93,964)
Adjustment to reconcile loss to cash provided by operating activities:			
Financial expenses and expenses for financial liability in respect of Income Units sold to private investors		**33,318**	38,105
Financial income	24	**(333)**	(268)
Income tax benefit	27	**(5,051)**	(724)
Loss on buy-back of Income Units sold to private investors	25	**543**	–
Re-measurement of lease liability	25	**3,565**	3,369
Revaluation of Park Plaza County Hall London Units	25	**(602)**	2,402
Capital loss (gain) on sale of fixed assets, net	25	**(996)**	1,457
Gain from marketable securities	24	**–**	(123)
Impairment of property, plant and equipment	5	**4,424**	2,500
Impairment of right-of-use assets	19	**–**	2,781
Share in results of Joint Ventures	6	**718**	826
Share appreciation rights revaluation	25,6c(i)	**(1,750)**	–
Depreciation and amortisation	4, 5, 19	**38,859**	41,343
Share-based payments		**1,268**	419
		73,963	92,087
Changes in operating assets and liabilities:			
Decrease in inventories		**337**	143
(Increase) decrease in trade and other receivables		**(19,167)**	13,505
Increase (decrease) in trade and other payables		**21,679**	(8,529)
		2,849	5,119
Cash paid and received during the period for:			
Interest paid		**(33,729)**	(31,412)
Interest received		**316**	173
Taxes paid		**(469)**	(1,076)
Taxes received		**–**	365
		(33,882)	(31,950)
Net cash used in operating activities		**(9,574)**	(28,708)

	Note	Year ended 31 December 2021 £'000	2020 £'000
Cash flows from investing activities:			
Investments in property, plant and equipment	5	**(58,582)**	(57,388)
Disposal of property, plant and equipment		**1,406**	317
Investments in intangible assets	4	**(176)**	(305)
Acquisition of Londra & Cargill in Rome, Italy	3a	**(28,298)**	–
Acquisition of Arena Franz Ferdinand, Austria	3b	**(12,783)**	–
Acquisition of Hotel 88 Rooms in Belgrade, Serbia	3c	**–**	(5,350)
Loan to Joint Venture		**(400)**	(583)
Investment in Joint Venture	6	**–**	(2,207)
Increase in restricted cash		**(6,332)**	(1,613)
Decrease in marketable securities, net		**–**	5,318
Net cash used in investing activities		**(105,165)**	(61,811)
Cash flows from financing activities:			
Proceeds from loans and borrowings		**53,666**	56,948
Buy-back of Income Units previously sold to private investors		**(1,934)**	–
Repayment of loans and borrowings		**(26,653)**	(7,530)
Repayment of leases		**(6,825)**	(1,567)
Net proceeds from transactions with non-controlling interest		**124,562**	(64)
Exercise of options settled in cash		**(1,342)**	
Net cash provided by financing activities		**141,474**	47,787
Increase (decrease) in cash and cash equivalents		**26,735**	(42,732)
Net foreign exchange differences		**(4,104)**	3,874
Cash and cash equivalents at beginning of year		**114,171**	153,029
Cash and cash equivalents at end of year		**136,802**	114,171
Non-cash items:			
Lease additions and lease remeasurement		**4,226**	15,143
Outstanding payable on investments in property, plant and equipment		**3,469**	3,918
Issuance of shares for acquisition of art'otel rights		**–**	1,024

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

Notes to consolidated financial statements

For the year ended 31 December 2021

Note 1 General

a. The consolidated financial statements of PPHE Hotel Group Limited (the 'Company') and its subsidiaries (together the 'Group') for the year ended 31 December 2021 were authorised for issuance in accordance with a resolution of the Directors on 28 February 2022.

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

b. Description of the Group business:

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

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

c. Assessment of going concern and liquidity:

In 2021, the ongoing challenges presented by the pandemic continued to cause severe disruption to the global hospitality sector, with government-imposed domestic and international travel restrictions and social distancing measures in place for much of the year. The Group continued to take proactive measures to conserve cash in 2021. Actions mainly included utilisation of government support schemes available to the business across its market, such as government job support schemes (amounting to £12.1 million), reimbursement of fixed costs grants (amounting to £9.6 million) and the business rates holiday in the UK (amounting to saving of approximately £8 million). Furthermore, capital expenditure requirements for the Group's development pipeline have been prioritised, and discretionary spend has been reduced to business-critical investments only. The Board has not recommended a dividend payment to shareholders and future payments will be aligned to the recovery trajectory and performance of the business.

In 2021, the Group further strengthened its liquidity through raising £125.8 million in cash as part of its joint venture transaction with Clal (see note 6c(i)) and as at 31 December 2021 the Group continues to hold a strong liquidity position with an overall consolidated cash balance of £136.8 million. Furthermore, the Group fully repaid the drawn balance under the CLBILS facility and the Waterloo facility and currently has access to £76.8 million of undrawn facilities. Financial covenant testing of existing facilities have been postponed, where appropriate, to 2023 (see Note 15c).

Since the start of the COVID-19 pandemic multiple cash flow forecasts showing various scenarios have been modelled and reviewed by the Board to provide the basis for strategic actions taken across the business. The Directors have considered detailed cash flow projections for the next three-year period to 31 December 2024 which are constructed on a base case and a downside case basis. Having reviewed those scenarios together with the Group's strong cash position and the covenant waivers received, the Directors have a reasonable expectation that the Company is likely to continue in business for at least 12 months from the date of approval of the consolidated financial statements without implementing any further protective measures to the operational structure. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

Note 2 Summary of significant accounting policies

a. Basis of preparation

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

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

The accounting policies used in preparing the consolidated financial statements for the years ended 31 December 2021 and 2020 are set out below. These accounting policies have been consistently applied to the periods presented, except where otherwise indicated.

b. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2021. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

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

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

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

c. Significant accounting judgments, estimates and assumptions

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

Notes to consolidated financial statements continued

For the year ended 31 December 2021

Note 2 Summary of significant accounting policies continued

Judgments

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

Acquisition of companies that are not business combinations

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

In determining whether a business was acquired, the Company evaluates whether the acquired integrated set of activities and assets include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The following criteria which indicate acquisition of a business are considered: the variety of assets acquired; the extent to which ancillary services to operate the property are provided; and the complexity of the management of the property.

Estimates and assumptions

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

Impairment of non-financial assets

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

Deferred tax assets

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

d. Business combinations and goodwill

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

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

Note 2 Summary of significant accounting policies continued

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

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

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

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

e. Business combinations involving entities under common control

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

f. Investment in associates and joint ventures

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

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

The Group's investments in associates and joint ventures are accounted for using the equity method. Under the equity method, the investment in an associate or joint venture is carried in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate or joint venture.

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

Notes to consolidated financial statements continued

For the year ended 31 December 2021

Note 2 Summary of significant accounting policies continued

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

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

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

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

g. Foreign currency translation

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

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

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

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

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

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

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

	As at 31 December	
	2021 In Pound Sterling	2020 In Pound Sterling
Euro	**0.838**	0.897
Hungarian Forint	**0.002**	0.002
Croatian Kuna	**0.112**	0.119
US Dollar	**0.740**	0.731

Note 2 Summary of significant accounting policies continued

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

	As at 31 December	
	2021 %	2020 %
Euro	**(6.6)**	5.3
Hungarian Forint	**(6.7)**	(4.7)
Croatian Kuna	**(6.3)**	4.0
US Dollar	**1.2**	(3.8)

h. Intangible assets

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

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

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

i. Property, plant and equipment

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

	Years
Hotel buildings	50 to 95
Furniture and equipment	2 to 25

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

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

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

j. Impairment of non-financial assets

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

Notes to consolidated financial statements continued

For the year ended 31 December 2021

Note 2 Summary of significant accounting policies continued

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

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

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

k. Financial instruments

i) Financial assets

Initial recognition and measurement

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

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

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

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

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

Subsequent measurement

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

– financial assets at amortised cost (debt instruments); and
– financial assets at fair value through profit or loss.

Financial assets at amortised cost (debt instruments)

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

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

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

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

Note 2 Summary of significant accounting policies continued

Financial assets at fair value through profit or loss

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

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

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

Derecognition

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

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

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

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

Impairment of financial assets

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

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

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

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

Notes to consolidated financial statements continued

For the year ended 31 December 2021

Note 2 Summary of significant accounting policies continued

ii) Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

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

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

Loans and borrowings

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

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

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

Financial liability in respect of Income Units sold to private investors

In 2010, the construction of Park Plaza Westminster Bridge London was completed and the hotel opened to paying customers. Out of 1,019 rooms, 535 rooms ('Income Units') were sold to private investors under a 999-year lease. The sales transactions are accounted for as an investment scheme in which the investors, in return for the upfront consideration paid for the Income Units, receive 999 years of net income from a specific revenue-generating portion of an asset (contractual right to a stream of future cash flows). The amounts received upfront are accounted for as a floating rate financial liability and are being recognised as income over the term of the lease (i.e. 999 years). Changes in future estimated cash flows from the Income Units are recognised in the period in which they occur. Since November 2014, the Company has bought back 37 Income Units from private investors. Upon buy-back of a unit, the financial liability relating to that unit is derecognised and any difference between the purchase price and the liability derecognised is recorded in profit and loss.

Note 2 Summary of significant accounting policies continued

On completion of each sale of Income Units, the Company, through a wholly owned subsidiary, Marlbray Limited ('Marlbray'), entered into income swap agreements for five years with the private investors. The income swap agreements included an obligation of the investors to assign the right to receive the net income derived from the Income Units to Marlbray and an undertaking by Marlbray to pay to the investors an annual rent guarantee of approximately 6% of the purchase price for a five-year period commencing from the date of the completion of the sale. The income swap has been accounted for as a derivative. In 2015, Marlbray entered into 56 new income swap agreements for a further five years from the expiry date of the original income swap agreements on the same terms and conditions. In 2020 all the income swap agreements have expired.

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

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

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

iii) Offsetting of financial instruments

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

l. Inventories

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

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

m. Cash and cash equivalents

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

n. Derivative financial instruments and hedge accounting

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

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

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

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

Notes to consolidated financial statements continued

For the year ended 31 December 2021

Note 2 Summary of significant accounting policies continued

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

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

o. Revenue from contracts with customers

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

Owned, co-owned and leased hotels

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

Management fees

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

Franchise fees

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

Marketing fees

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

Customer loyalty programme

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

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

Note 2 Summary of significant accounting policies continued

Contract balances

Trade receivables

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

Contract liabilities

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

p. Alternative performance measures

EBITDAR

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

EBITDA

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

EBIT

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

q. Leases

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

The Group as lessee

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

Right-of-use assets

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

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

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

Notes to consolidated financial statements continued

For the year ended 31 December 2021

Note 2 Summary of significant accounting policies continued

Lease liabilities

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

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

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

Variable lease payments that depend on an index:

On the commencement date, the Company uses the index rate prevailing on the commencement date to calculate the future lease payments.

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

Variable lease payments:

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

Lease extension and termination options:

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

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

Lease modifications:

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

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

Note 2 Summary of significant accounting policies continued

Short-term leases and leases of low-value assets

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

r. Employee benefits

Share-based payments

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

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

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

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

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

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

Pension

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

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

s. Provisions

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

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

Notes to consolidated financial statements continued

For the year ended 31 December 2021

Note 2 Summary of significant accounting policies continued

t. Borrowing costs for qualifying assets

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

u. Taxation

Current income tax

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

Deferred income tax

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

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

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

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

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

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

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

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

v. Treasury shares

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

Note 2 Summary of significant accounting policies continued

w. Earnings (loss) per share

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

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

x. Government grants

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

y. Changes in accounting policies and disclosures

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2021. Several other amendments and interpretations apply for the first time in 2021, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

COVID-19 related rent concessions beyond 30 June 2021
Amendment to IFRS 16

On 28 May 2020, the IASB issued COVID-19 Related Rent Concessions – amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The amendment was intended to apply until 30 June 2021, but as the impact of the COVID-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022.
The amendment applies to annual reporting periods beginning on or after 1 April 2021.

Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

As at 31 December 2021 the Group had two variable interest bearing loans that were linked to the Pound Libor. After the reporting date those loan agreements were amended to replace the Pound Libor with sterling overnight index average (Sonia) effective from 2022. In line with the above practical expedient those loan amendments will be treated as changes to a floating interest rate.
The Group does not expect the change in rates to have any significant impact on the future cash outflow from those loans.

z. Standards issued but not yet applied

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

Notes to consolidated financial statements continued

For the year ended 31 December 2021

Note 2 Summary of significant accounting policies continued

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

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

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

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

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

Reference to the Conceptual Framework – Amendments to IFRS 3

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

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

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

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

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

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

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

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

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

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

Note 2 Summary of significant accounting policies continued

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

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

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

Definition of Accounting Estimates – Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

The amendments are not expected to have a material impact on the Group.

Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgments to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Group is currently assessing the amendments to determine the impact they will have on the Group's accounting policy disclosures.

Notes to consolidated financial statements continued

For the year ended 31 December 2021

Note 3 Business combination

a. Acquisition of Londra & Cargill Hotel in Rome, Italy

On 10 November 2021 PPHE Hotel Group, through its wholly owned subsidiary Londra Cargill Parent S.r.l, acquired 100% of the shares of Società Immobiliare Alessandro De Gasperis S.r.l. which owns and operate the Londra & Cargill Hotel in Rome, Italy (the 'hotel'). The hotel offers 101 rooms and suites, a restaurant, bar, meeting facilities and private parking and will continue to operate while the Group finalises its plans to reposition the property as an upper upscale lifestyle hotel. The hotel is expected to be relaunched in early 2023 after completing the planned repositioning. The purchase price of €33.1 million (£28.3 million) was funded from the Group's excess cash position. Transaction costs of £0.5 million were expensed and are included in other expenses in the consolidated income statement.

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

	Fair value £'000
Property, plant and equipment	33,052
Trade and other receivables	43
Indemnification asset	
Trade and other payables	(3,784)
Bank loan	(483)
Deferred tax liabilities, net	(530)
Net assets	28,298
Cash flow on acquisition:	
Cash acquired with the subsidiary	8
Cash paid	(28,306)
Net cash outflow	(28,298)

From the date of acquisition, Società Immobiliare Alessandro De Gasperis S.r.l. contributed £0.2 million of revenue and a loss of £(0.2) million to loss before tax of the Group. If the combination had taken place at the beginning of the year, the effect on revenues and profit before tax of the Group would have been immaterial.

b. Acquisition of the FRANZ ferdinand Mountain Resort Hotel in Nassfeld, Austria

On 3 December 2021, Arena Hospitality Group d.d., through its subsidiaries Sugarhill Investments B.V. and ARENA FRANZ Ferdinand GmbH, acquired the FRANZ ferdinand Mountain Resort Nassfeld, a 4-star hotel in Nassfeld, Austria. The purchase price of €15.3 million (£12.8 million) was partially funded from Arena's excess cash and partially by bank debt of €10.5 million (£8.8 million) with Erste Group Bank AG. Transaction costs of £0.5 million were expensed and are included in other expenses in the consolidated income statement.

Note 3 Business combination continued

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

	Fair value £'000
Property, plant and equipment	13,155
Inventories	31
Trade and other payables	(403)
Net assets	12,783
Cash paid	(12,783)

From the date of acquisition, FRANZ ferdinand Mountain Resort Nassfeld contributed £0.3 million of revenue and a loss of £(0.1) million to loss before tax. If the combination had taken place at the beginning of the year, the effect on revenues and profit before tax of the Group would have been immaterial.

c. Acquisition of 88 Rooms Hotel in Belgrade, Serbia

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

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

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

If the acquisition had taken place as of 1 January 2020, the effect on prior year revenues and loss before tax of the Group would have been immaterial.

Notes to consolidated financial statements continued

For the year ended 31 December 2021

Note 4 Intangible assets

	Park Plaza® Hotels & Resorts management rights (a)[1] £'000	Park Plaza® Hotels & Resorts franchise rights (a)[2] £'000	art'otel® franchise rights (b) £'000	Other intangible assets (c) £'000	Total £'000
Cost:					
Balance as at 1 January 2021	**21,475**	**21,954**	**3,899**	**3,347**	**50,675**
Adjustment for exchange rate differences	**(1,412)**	**(1,444)**	**(256)**	**(222)**	**(3,334)**
Additions	**–**	**–**	**–**	**176**	**176**
Disposals	**–**	**–**	**–**	**(10)**	**(10)**
Balance as at 31 December 2021	**20,063**	**20,510**	**3,643**	**3,291**	**47,507**
Accumulated amortisation:					
Balance as at 1 January 2021	**14,446**	**14,868**	**1,866**	**1,741**	**32,921**
Disposals	**–**	**–**	**–**	**(10)**	**(10)**
Amortisation	**1,035**	**1,042**	**186**	**268**	**2,531**
Adjustment for exchange rate differences	**(974)**	**(1,001)**	**(127)**	**(123)**	**(2,225)**
Balance as at 31 December 2021	**14,507**	**14,909**	**1,925**	**1,876**	**33,217**
Net book value as at 31 December 2021	**5,556**	**5,601**	**1,718**	**1,415**	**14,290**
Cost:					
Balance as at 1 January 2020	20,391	20,846	2,532	3,128	46,897
Adjustment for exchange rate differences	1,084	1,108	119	128	2,439
Additions	–	–	1,248	81	1,329
Disposals	–	–	–	(6)	(6)
Acquisition of a subsidiary	–	–	–	16	16
Balance as at 31 December 2020	21,475	21,954	3,899	3,347	50,675
Accumulated amortisation:					
Balance as at 1 January 2020	12,689	13,084	1,645	1,443	28,861
Disposals	–	–	–	(6)	(6)
Amortisation	1,072	1,080	132	251	2,535
Adjustment for exchange rate differences	685	704	89	53	1,531
Balance as at 31 December 2020	14,446	14,868	1,866	1,741	32,921
Net book value as at 31 December 2020	7,029	7,086	2,033	1,606	17,754

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

(1) Management rights – rights held by the Group relating to the management of Park Plaza® Hotels & Resorts in Europe, the Middle East and Africa. The management rights are included in the consolidated financial statements at their fair value as at the date of acquisition and are being amortised over a 20-year period based on the terms of the existing contracts and management estimation of their useful life. The remaining amortisation period is 6.5 years.

(2) Franchise rights relating to the brand 'Park Plaza® Hotels & Resorts' are included in the consolidated financial statements at their fair value as at the date of acquisition and are being amortised over a 20-year period based on management's estimation of their useful life. The remaining amortisation period is 6.5 years.

Note 4 Intangible assets continued

b. Acquisition of art'otel® rights

In 2007, the Group acquired from CCS Capital Concept Services Gmbh (the 'vendor') the worldwide rights to use the art'otel® brand name for an unlimited period of time. The rights are being amortised over a 20-year period based on management's estimation of their useful life. The remaining amortisation period is 6.5 years. In December 2020, the Group acquired certain rights which were assigned to the vendor under the original agreement for a cash consideration of €0.3 million (£0.2 million) and 80,000 shares of the Company. The additional rights are amortised based on management's estimation of their useful life.

c. Other intangible assets

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

d. Impairment

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

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

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

Given the adverse effect that COVID-19 had on the hospitality sector, management assumed that cash flow from management fees and royalty fee saving will gradually recover during 2022–2023, and returning to 2019 levels in 2024. The discount rate applied to the cash flow projections for both the management and franchise rights was set at 10% which includes a risk premium on top of the Group WAAC. Based on this analysis it was concluded that there is no need for impairment.

Notes to consolidated financial statements continued

For the year ended 31 December 2021

Note 5 Property, plant and equipment

	Land £'000	Hotel buildings £'000	Property & assets under construction £'000	Income Units sold to private investors[1] £'000	Furniture, fixtures and equipment £'000	Total £'000
Cost:						
Balance as at 1 January 2021	**353,931**	**699,516**	**24,095**	**138,199**	**240,865**	**1,456,606**
Additions during the year	**–**	**1,750**	**25,175**	**363**	**32,153**	**59,441**
Disposal	**(77)**	**(1,835)**	**(23)**	**–**	**(375)**	**(2,310)**
Acquisition of subsidiaries (Note 3)	**6,169**	**38,443**	**–**	**–**	**1,595**	**46,207**
Buy-back of Income Units sold to private investors	**174**	**1,253**	**–**	**(1,534)**	**107**	**–**
Reclassification	**–**	**1,998**	**(1,964)**	**874**	**(1,080)**	**(172)**
Adjustment for exchange rate differences	**(11,583)**	**(23,829)**	**(1,558)**	**–**	**(5,136)**	**(42,106)**
Balance as at 31 December 2021	**348,614**	**717,296**	**45,725**	**137,902**	**268,129**	**1,517,666**
Accumulated depreciation and impairment:						
Balance as at 1 January 2021	**11,043**	**96,933**	**–**	**22,435**	**124,837**	**255,248**
Provision for depreciation	**317**	**13,922**	**–**	**643**	**14,778**	**29,660**
Disposal	**–**	**(1,571)**	**–**	**–**	**(329)**	**(1,900)**
Reclassification	**–**	**(12)**	**–**	**418**	**(384)**	**22**
Buy-back of Income Units sold to private investors	**–**	**157**	**–**	**(259)**	**102**	**–**
Impairment	**4,424**	**–**	**–**	**–**	**–**	**4,424**
Adjustment for exchange rate differences	**(115)**	**(3,174)**	**–**	**–**	**(2,499)**	**(5,788)**
Balance as at 31 December 2021	**15,669**	**106,255**	**–**	**23,237**	**136,505**	**281,666**
Net book value as at 31 December 2021	**332,945**	**611,041**	**45,725**	**114,665**	**131,624**	**1,236,000**
Cost:						
Balance as at 1 January 2020	315,743	661,672	14,410	137,789	206,221	1,335,835
Additions during the year	1,034	14,482	10,975	410	34,388	61,289
Disposal	–	(3,065)	–	–	(2,859)	(5,924)
Acquisition of subsidiaries	30,089	4,697	3,826	–	223	38,835
Reclassification	2	5,857	(5,473)	–	(386)	–
Adjustment for exchange rate differences	7,063	15,873	357	–	3,278	26,571
Balance as at 31 December 2020	353,931	699,516	24,095	138,199	240,865	1,456,606
Accumulated depreciation and impairment:						
Balance as at 1 January 2020	7,361	82,706	–	21,278	110,829	222,174
Provision for depreciation	329	13,744	–	1,157	16,149	31,379
Disposal	–	(1,543)	–	–	(2,607)	(4,150)
Reclassification	699	169	–	–	(868)	–
Impairment	2,500	–	–	–	–	2,500
Adjustment for exchange rate differences	154	1,857	–	–	1,334	3,345
Balance as at 31 December 2020	11,043	96,933	–	22,435	124,837	255,248
Net book value as at 31 December 2020	342,888	602,583	24,095	115,764	116,028	1,201,358

Note 5 Property, plant and equipment continued

1. This includes 498 rooms ('Income Units') (2020: 504) in Park Plaza Westminster Bridge London, for which the cash flows, derived from the net income generated by these Income Units, were sold to private investors (see Note 2(k)). The proceeds from the purchases have been accounted for as a variable rate financial liability (see Note 17).

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

b. **Impairment**
The recoverable amount of property, plant and equipment had been determined based on third party valuations received for 31 December 2021. Given the adverse effect that COVID-19 had on the hospitality sector, the third party valuers assumed that cash flow from operations will gradually recover during 2022–2023, and returning to 2019 levels in 2024. The discount rates applied to cash flow projections was determined by the third party valuator and ranges between 7.5%–11%. In 2021, the Group recorded an impairment loss in respect of one property in the Management and Central Services segment in the amount of £4.4 million, which is included in depreciation, amortisation and impairment loss.

c. **Capitalised borrowing costs**
On 7 April 2020 the Group entered into a building contract to develop art'otel London Hoxton on a site located by Old Street, Rivington Street, Great Eastern Street and Bath Place, London EC1, which is expected to be completed in February 2024 (see Note 30c(i)). The cumulative expenditure for this project as at 31 December 2021 was £66.7 million (2020: £37.1 million).

The amount of borrowing costs capitalised related to this project during the year ended 31 December 2021 was £1.3 million (2020: £0.6 million). The rate used to determine the amount of borrowing costs eligible for capitalisation was LIBOR +3.55%, which is the effective interest rate (EIR) of the specific borrowing.

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

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

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

a. **Investment in joint ventures**

	As at 31 December 2021 £'000	2020 £'000
Loans to joint ventures[1]	**5,222**	5,066
Share of net assets under equity method	**(907)**	(325)
Investment in joint ventures	**4,315**	4,741

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

Notes to consolidated financial statements continued

For the year ended 31 December 2021

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

The share in net loss amounts to £718 thousand (2020: net loss of £826 thousand).

b. Joint venture agreement in New York City

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

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

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

Under the terms of the joint venture agreement, there was an intention to negotiate a construction agreement between the Property Owner and Largo as the contractor, provided certain conditions were met prior to the end of February 2020. However, in January 2020 the Company, through a wholly owned subsidiary, has acquired from Largo its 50% interest in the Property Owner, for a total consideration of US$3.3 million (£2.2 million) plus associated acquisition costs. As a result, the Company now owns 100% of the Property and the associated joint venture arrangements have been terminated. The acquisition was funded from the Company's existing cash resources.

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

(i) Long-term partnership for 49% of Park Plaza London Riverbank and art'otel London Hoxton development project

On 23 June 2021 a wholly owned subsidiary of PPHE Hotel Group, entered into a sale and purchase agreement with Clal Insurance ('Clal'), one of Israel's leading insurance and long-term savings companies. As part of this agreement, Clal became a minority partner and owner of 49% of the shares of Signature Top Ltd, a wholly owned subsidiary of the Group, ('Signature Top') which indirectly holds the real estate and operations of both the 646-room Park Plaza London Riverbank ('Riverbank') and the 343-room art'otel London Hoxton development project ('Hoxton'), which is scheduled to open in 2024. As part of this agreement the Group has secured a 20-year hotel management agreement in respect of both hotels.

In addition, Clal was granted 5 million share appreciation rights (SAR) of the Company which has a seven-year maturity with a strike price of £16 per share and a cap of £21 per share. The SAR will vest as follows:

- 500,000 SAR Units shall vest and become exercisable on the first anniversary of the completion of the sale and purchase agreement ('Completion')
- 500,000 SAR Units shall vest and become exercisable on the date being 18 months after Completion
- The remaining four million SAR Units shall vest and become exercisable on the second anniversary of Completion.

Upon exercise, the Company will have a right to determine whether an amount equal to the SAR Value as of the date of the exercise will be satisfied by a payment of cash or by the issuance of the Company's shares.

The SAR instrument, which is included in Level 2 in the fair value hierarchy, was valued on inception by an independent valuer using the Black–Scholes model. The following lists the inputs used for the fair value measurement:

Dividend yield	0%
Expected volatility of the share price	29.13%
Risk-free interest rate	0.931%
Years to expiration	7 years

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

The total price paid by Clal in connection with the transaction amounts to £113.7 million in cash, subject to working capital adjustments, out of which £7.2 million was allocated to the SAR. In addition, Clal provided further cash injection of £12.1 million to fund their portion of the remaining equity commitments of the art'otel London Hoxton development project.

The arrangements between the Group and Clal contain customary exit provisions which include a right for Clal to require a sale of either or both of the companies which own the hotels following seven years from completion or earlier in a change of control of PPHE and certain events of default. If triggered, such provisions afford the Group a pre-emption right in respect of such companies. The Group has also given certain guarantees to Clal regarding completion of the art'otel London Hoxton development project.

The Group has assessed this transaction and concluded that the sale of the ownership interest in Signature Top does not trigger a change of control and should be accounted for as an equity transaction in accordance with IFRS 10 Consolidated Financial Statements. The excess of consideration received over the carrying amount of the non-controlling interests (net of £1.2 million of transaction costs) in the amount of £37.9 million is recognised in equity of the parent. The Group has elected to recognise this amount in accumulated earnings. Furthermore, upon initial recognition the SAR liability in the amount of £7.2 million was classified as a Financial liability measured at fair value through profit or loss in line with IAS 32 Financial Instruments: Presentation and IFRS 9 Financial Instruments.

As at 31 December 2021, the SAR instrument was valued internally at an amount of £5.4 million using the Black–Scholes model and is included (net of the current portion in the amount of £0.5 million) in Other financial liabilities in the Group's consolidated balance sheet. The following lists the inputs used for the fair value measurement:

Dividend yield	0%
Expected volatility of the share price	38.26%
Risk-free interest rate	0.825%
Years to expiration	6.5 years

The amount of loss and comprehensive loss allocated to the non-controlling interests in 2021 amounts to £2,199 thousand (2020: nil) and £2,199 thousand (2020: nil) respectively.

Below is selected financial information relating to the long-term partnership with Clal, as of 31 December 2021 and for the six months ended 31 December 2021.

	2021 £'000
Non-current assets	306,046
Current assets	15,891
Non-current liabilities	152,076
Current liabilities	10,327
Revenue	10,723
EBITDA	2,108
Loss for the period	(4,488)
Total comprehensive loss	(4,488)

Notes to consolidated financial statements continued

For the year ended 31 December 2021

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

(ii) Arena Hospitality Group d.d.

As at 31 December 2021, the Company owned approximately 52.95% (2020: 52.95%) of Arena Hospitality Group d.d. ('Arena').The amount of profit and comprehensive loss allocated to the non-controlling interests in 2021 amounts to £1,824 thousand (2020: loss of £12,233 thousand) and £4,023 thousand (2020: loss of £8,118 thousand) respectively.

Below is selected financial information relating to Arena, as of 31 December 2021 and 2020, and for the years ended 31 December 2021 and 2020.

	As at 31 December	
	2021 £'000	2020 £'000
Non-current assets	**343,051**	328,687
Current assets	**49,884**	55,464
Non-current liabilities	**166,841**	159,649
Current liabilities	**31,458**	21,723
Revenue	**52,542**	28,129
EBITDA	**18,642**	(2,158)
Profit (loss) for the period	**4,115**	(26,292)
Total comprehensive loss	**(8,831)**	(17,544)

Note 7 Other non-current assets

a. Non-current financial assets

	As at 31 December	
	2021 £'000	2020 £'000
Income Units in Park Plaza County Hall London[1]	**15,800**	15,350
Rent security deposits	**346**	370
Other non-current assets	**240**	238
	16,386	15,958

1 On 14 July 2017, the Group acquired an ownership interest in Park Plaza County Hall London through its purchase of 44 aparthotel units and the associated shares in the management company of the hotel, South Bank Hotel Management Company Limited. The purchase price was £16.0 million. In October 2017 an additional two units were purchased for £0.7 million. Upon initial recognition, the investment was designated in the consolidated financial statements at fair value through profit and loss. In return for the consideration paid, the Company receives 999 years of net income from specific revenue-generating units of the hotel (contractual right to a stream of future cash flows). This investment is managed and its performance is evaluated by the Group management on a fair value basis in accordance with the Group investment strategy. As the cash flows from this investment are not solely payments of principal and interest, under IFRS 9 the investment is classified and measured at fair value through profit or loss. The fair value of the Income Units as of the reporting date was £15.8 million based on an independent valuation prepared by Savills using a cap rate of 6%.

Note 8 Trade receivables

a. Composition:

	As at 31 December	
	2021 £'000	2020 £'000
Trade receivables	**7,701**	4,177
Less – allowance for doubtful debts	**(890)**	(704)
	6,811	3,473

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

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

	2021 £'000
As at 1 January 2021	**(704)**
Write-off	**45**
Additions	**(265)**
Exchange rate differences	**34**
As at 31 December 2021	**(890)**
As at 1 January 2020	(877)
Write-off	243
Additions	(42)
Exchange rate differences	(28)
As at 31 December 2020	(704)

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

			Past due			
2021	Total £'000	Not past due £'000	< 30 days £'000	31 to 60 days £'000	61 to 90 days £'00	> 90 days £'000
Trade receivables	**7,701**	**4,326**	**1,691**	**636**	**118**	**930**
Allowance for doubtful debts						**(890)**

			Past due			
2020	Total £'000	Not past due £'000	< 30 days £'000	31 to 60 days £'000	61 to 90 days £'00	> 90 days £'000
Trade receivables	4,177	2,702	378	59	69	969
Allowance for doubtful debts	(704)					(704)
	3,473	2,702	378	59	69	265

Notes to consolidated financial statements continued

For the year ended 31 December 2021

Note 9 Other receivables and prepayments

	As at 31 December	
	2021 £'000	2020 £'000
Prepaid expenses	**5,352**	5,389
VAT	**6,686**	1,103
Related parties[1]	**56**	–
Government grants for fixed costs receivables	**6,285**	–
Others	**1,056**	1,552
	19,435	8,044

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

Note 10 Other current financial assets

	As at 31 December	
	2021 £'000	2020 £'000
Investment in marketable securities[1]	**22**	27

1 Classified as held for trading.

Note 11 Cash and cash equivalents

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

Note 12 Equity

a. Share capital

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

As at 31 December 2021, the number of ordinary shares issued was 44,347,410 (2020: 44,347,410), 1,808,070 of which were held as treasury shares (2020: 1,808,070).

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

b. Treasury shares

On 29 September 2009, the Company purchased 862,000 of its ordinary shares at a price of 111 pence per share. On 26 October 2011, the Company purchased 800,000 of its ordinary shares at a price of 227 pence per share. On 29 August 2012, the Company purchased 200,000 of its ordinary shares at a price of 210 pence per share. On 18 October 2017, the Company purchased 41,070 of its ordinary shares at a price of 1,041 pence per share. On 27 February 2018, the Company issued 15,000 of its ordinary shares from its treasury account at a price of 1,070 pence per share. On 22 December 2020, the Company issued 80,000 of its ordinary shares from its treasury account at a price of 1,280 pence per share. The total number of treasury shares is 1,808,070.

c. Nature and purpose of reserves

Foreign currency translation reserve

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

Hedging reserve

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

Note 13 Share-based payments

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

2007 Option Plan

The 2007 Plan has two types of options: Option A and Option B. The exercise price of both options will not be less than the closing price of a share on the dealing day immediately preceding the grant date (as published in the Daily Official List of the London Stock Exchange). Option A vests over a period of three years from the grant date and Option B vests at the end of three years from the grant date. Unexercised options expire ten years after the grant date. The plan does not include any performance conditions.

As at 31 December 2021, there were 265,500 options outstanding under the 2007 Option Plan. These options were granted to employees of the Company in past years. No further grants can be made under this plan.

2020 PPHE Executive Share Option Plan

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

a. The plan has four types of options:

- Option A: market value options – options that are linked to the market value of the shares in the Company;
- Option B: salary-related options – whereby employees agree to a reduction in their base salary in exchange for the right to acquire shares at nil-cost. These options normally vest after 12 months subject to an additional six-month holding period;
- Option C: deferred bonus awards – allowing the award of the number of shares determined by the Remuneration Committee in lieu of some or all of the annual bonus; and
- Option D: performance share awards – options which are granted subject to specified performance targets. Notwithstanding the extent to which any performance target is satisfied, the number of vested award shares may be reduced by the Committee to ensure that the number of vested award shares is appropriate taking into account the underlying business performance of the Group.

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

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

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

Notes to consolidated financial statements continued

For the year ended 31 December 2021

Note 13 Share-based payments continued

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

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

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

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

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

c. The expense arising from equity-settled share-based payment transactions during 2021 was £1,085 thousand (2020: £259 thousand). Total exercisable options at 31 December 2021 amounted to 335,367 (2020: 352,242).

Note 13 Share-based payments continued

Movements during the year

The following table illustrates the number (No.) and weighted average exercise prices (EP) of, and movements in, share options during 2020 and 2021:

	No. of options A (2007 Option Plan)	No. of options A (2020 Option Plan))	No. of options B (2020 Option Plan)	EP
Outstanding as at 1 January 2021	**412,290**	**714,000**	**70,706**	**£11.05**
Options forfeited during the year	**(25,000)**	**(13,500)**	**(839)**	**£13.55**
Options exercised in the year	**(121,790)**	**–**	**–**	**£5.70**
Options voluntarily waived[1]	**–**	**(450,000)**	**–**	**13.00**
Outstanding as at 31 December 2021	**265,500**	**250,500**	**69,867**	**£10.51**
Outstanding as at 1 January 2020	412,290	–	–	£9.58
Options forfeited during the year	–	–	–	–
Options exercised in the year	–	–	–	–
Options granted during the year	–	714,000	70,706	£11.83
Outstanding as at 31 December 2020	412,290	714,000	70,706	£11.05

1 In 2021, a few of the Group's employees have agreed to voluntarily waive their rights in connection with the grant of 450,000 options in October 2020 given the underlying requirements of the NOW scheme issued in the Netherlands.

As at 31 December 2021 the number of exercisable options was 335,367 (2020: 352,242) with an EP of £8.64 (2020: £8.30).

The weighted average remaining contractual life for the share options outstanding as at 31 December 2021 is 7.2 years (2020: 8.5 years).

Note 14 Pledges, contingent liabilities and commitments

a. Pledges, collateral and securities

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

b. Restricted cash

Under certain facility agreements, funds need to be held in restricted deposit accounts in order to pay the debt service for a subsequent period. The total deposits held amount to £13.3 million and are presented as restricted in the financial statements.

c. Commitments

(i) Management and franchise agreements

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

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

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

Notes to consolidated financial statements continued

For the year ended 31 December 2021

Note 14 Pledges, contingent liabilities and commitments continued

(ii) Construction contract commitment

As at 31 December 2021, the Group had capital commitments amounting to £128.4 million for the construction of the development of art'otel London Hoxton.

(iii) Guarantees

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

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

   The sponsor support deed with UOB provides that the Company shall maintain a net gearing ratio (the ratio of (i) any interest-bearing indebtedness owed to financial institutions or under financial debt instruments of the Company less any cash balances or cash equivalent instruments maintained by the Company) to (ii) its tangible net worth (total tangible assets less all external liabilities in respect of money borrowed or raised by the Company) not exceeding 3:1. As at 31 December 2021, the Company was in compliance with the aforementioned covenants.

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

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

   As before, the Company continues to believe that, given the Red Sea indemnity in favour of the Company, it is not probable that any material outflow of resources embodying economic benefits will be required to settle the obligations of the Company under the sponsor support deed and as such no provision has been included in the accounts.

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

Note 14 Pledges, contingent liabilities and commitments continued

3. In March 2019, as part of the joint venture arrangements in relation to art'otel New York, the Company granted certain guarantees to Bank Hapoalim as lender under the US$22,150,000 facility to W29 Owner LLC, a direct and 100% subsidiary of the joint venture (W29 Development LLC). Further, the Company, in its capacity as guarantor under the facility, agreed to indemnify Bank Hapoalim for a breach of certain obligations under the loan agreement as well as for certain environmental issues in relation to the properties acquired by W29 Owner LLC up to an aggregate amount of US$33,225,000.
   This indemnification was a joint and several liability for the Company and the joint venture partner. Following the acquisition of the 50% membership interest in W29 Development LLC by the Company from its joint venture partner as well as the extension of the loan facilities, the Company is now the sole guarantor as the joint venture partner was released as part of the acquisition arrangements.

4. The Company guarantees cost overruns and the practical completion of the art'otel London Hoxton development under the £180 million construction financing facility agreement granted by Bank Hapoalim B.M .

5. In relation to the long-term partnership with Clal relating to the art'otel London Hoxton development project further detailed at Note 6, the Company has provided certain guarantees relating to practical completion, cost overruns and delays.

Note 15 Borrowings

The borrowings of the Group are composed as follows:

As at 31 December 2021	€ denominated £'000	£ denominated £'000	$ denominated £'000	HRK denominated £'000	Total £'000
Fixed interest rate	245,709	426,481	–	21,530	693,720
Weighted average interest rate	2.29%	3.61%	–	1.94%	
Variable interest rate	19,540	43,935	16,381	–	79,856
Weighted average interest rate	1.87%	3.58%	3.50%	–	
Total	265,249	470,416	16,381	21,530	773,576
Weighted average interest rate	2.26%	3.61%	3.50%	1.94%	3.09%

Maturity analysis 2021	Outstanding amount	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
Total borrowings	773,576	39,640	22,893	17,255	57,747	355,328	280,713
Capitalised transaction costs and other adjustments	(5,452)	(800)	(800)	(800)	(800)	(800)	(1,452)
	768,124	38,840	22,093	16,455	56,947	354,528	279,261

For securities and pledges, see Note 14.

Notes to consolidated financial statements continued

For the year ended 31 December 2021

Note 15 Borrowings continued

As at 31 December 2020	€ denominated £'000	£ denominated £'000	$ denominated £'000	HRK denominated £'000	Total £'000
Fixed interest rate	237,798	420,540	–	26,816	685,154
Weighted average interest rate	2.22%	3.61%	–	1.94%	
Variable interest rate	21,845	41,550	16,183	–	79,578
Weighted average interest rate	1.83%	3.27%	3.50%	–	
Total	259,643	462,090	16,183	26,816	764,732
Weighted average interest rate	2.19%	3.58%	3.50%	1.94%	3.05%

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

For securities and pledges, see Note 14.

b. Finance agreements entered in the period:

Grandis facility

On 25 June 2021, Grandis Netherlands Holding B.V., a wholly owned subsidiary of the Company ('Grandis'), voluntarily prepaid the loan facility with Aareal Bank AG ('Aareal') which had an outstanding balance of £9.2 million. The break costs of the early prepayment which amounted to £0.6 million were recorded in other expense in the Group's consolidated income statement. On 17 December 2021 Grandis and Aareal signed an agreement to include Grandis under the existing Aareal facility for the Dutch properties. Under this agreement, the additional facility amount of £16.3 million will mature on 16 June 2026 and will bear a fixed interest rate of 3.3% per annum.

Arena Hospitality Group d.d., Croatia capital financing loan

On 20 September 2021 Arena entered into a new long-term working capital financing loan facility agreement with Zagrebačka banka d.d. as part of Hrvatska banka za obnovu i razvitak (HBOR) programme for insurance of liquidity portfolio for exporters related with COVID-19 measurements. The facility is in a total amount of €20 million (£16.8 million), maturing on 30 June 2025 at a fixed interest rate of 0.9% per annum. As at 31 December 2021 the facility is undrawn.

FRANZ ferdinand Mountain Resort Hotel in Nassfeld, Austria

On 24 November 2021, ARENA FRANZ Ferdinand GmbH, a wholly owned subsidiary of Arena entered into a €10.5 million (£8.8 million) facility, maturing in 2033, with Erste Group Bank AG for the purpose of acquiring hotel FRANZ Ferdinand Mountain Resort in Nassfeld (Austria). As at 31 December 2021 this facility was fully drawn.

PPHE Living Limited financing agreement

On 29 January 2020, PPHE Living Limited, a wholly owned subsidiary of the Company, entered into a five-year loan agreement with Santander UK Plc of £1.64 million which is secured against the Old Bakery, a property purchased to provide staff accommodation. The loan is at a fixed rate of 2.25%. As at 31 December 2021 this facility was fully drawn.

art'otel London Hoxton financing

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

The initial maturity date of the facility is April 2024 with provisions, subject to certain conditions, to extend the facility by two periods of three years each. The facility bears an initial interest rate margin of 3.55% over LIBOR. The margin decreases to 2.95% following two consecutive quarters after practical completion of the Hotel. In addition, there is a fee for unutilised amount of 0.25%. As at 31 December 2021 £38.5 million was drawn from this facility.

Note 15 Borrowings continued

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

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

Waterloo Hotel Holding B.V. financing agreement

On 23 June 2020 Waterloo Hotel Holding B.V., a wholly owned subsidiary of the Company, entered into a three-year, £20 million financing agreement with Santander UK Plc which bears an interest rate margin of 2.4% plus LIBOR. As at 31 December 2021 the facility is undrawn.

Guest House Hotel Riviera financing

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

Park Plaza Hotels Europe B.V. facility

On 7 August 2020 Park Plaza Hotels Europe B.V., a wholly owned subsidiary of the Company, entered into a three-year, €10 million (£9.1 million), Dutch government backed COVID-19 go-arrangement financing agreement with ABN AMRO Bank N.V. which bears an interest rate of 2.9% plus EURIBOR per annum. As at 31 December 2021 this facility was fully drawn.

Park Plaza Hotels (UK) Limited facility

On 10 November 2020, Park Plaza Hotels (UK) Limited, a wholly owned subsidiary of the Company, entered into a revolving facility agreement with Santander UK Plc for up to £30 million pursuant to the Coronavirus Large Business Interruption Loan Scheme (CLBILS). The facility is provided on a three-year term and bears an interest rate margin on drawn amounts of 2.5% plus LIBOR during year one, with the margin increasing to 3% in years two and three. On 26 May 2021, Park Plaza Hotels (UK) Limited entered into an agreement with Santander UK Plc to extend the £30 million CLBILS facility to £40 million under the same terms and conditions. As at 31 December 2021 the facility is undrawn.

Hotel Brioni Pula financing agreement

On 8 December 2020 Arena entered into a new loan agreement with Erste Banka d.d. and Zagrebačka Banka d.d. in Croatia for the purpose of financing the refurbishment of Hotel Brioni Pula. The facility is in a total amount of €24 million (£21.5 million), maturing in 2033 at a fixed interest rate of 2.6%. As at 31 December 2021 €20.8 million (£17.5 million) of the loan was drawn.

88 Rooms Hotel in Belgrade, Serbia financing

On 17 December 2020 Arena entered into a new loan agreement with AIK Banka a.d. for the purchase of 88 Rooms Hotel in Belgrade, Serbia. The facility is in a total amount of €4.2 million (£3.8 million), maturing in 2025 at a fixed interest rate of 4.3%. As at 31 December 2021 the loan was fully drawn.

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

(i) Under the two Aareal facilities, for Park Plaza London Riverbank (the 'Riverbank hotel') and all six of the Group's Dutch hotels and Grandis (the 'Dutch hotels and Grandis'), the borrowers must ensure that the aggregate amount of the outstanding facilities does not exceed 62.2% of the value of the Dutch hotels and Grandis and 60% of the value of the Riverbank hotel as set out in the most recent valuation (loan-to-value). In addition, the borrowers must ensure that, on each interest payment date, the Debt Service Coverage Ratio (DSCR) is not less than 115%. In January 2021, the Group received from the bank a waiver for the DSCR and the loan-to-value covenants until 30 June 2022 (inclusive) with the first test due in July 2022 based on the results for 30 June 2022. In addition the loan amortisation for 2021 will be deferred to 2022. In December 2021, as part of the inclusion of Grandis under the Dutch hotels facility, it was agreed that the DSCR covenant will be tested from 30 June 2023 and the loan-to-value will be tested from 30 June 2022 for the Dutch hotels and Grandis. After the reporting period, the Group received a letter from the bank confirming that the financial covenant testing for Riverbank Hotel will be postponed to 2023 with the first test due in April 2023 based on the results for 31 March 2023.

Notes to consolidated financial statements continued

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Note 15 Borrowings continued

(ii) Under the AIG Asset Management (Europe) Limited facility for Park Plaza Westminster Bridge London, the borrower must ensure that the aggregate amount of the outstanding facility does not exceed 70% of the value of the hotel as set out in the most recent valuation (loan-to-value). In addition, the borrower must ensure that, on each interest payment date, the historical and projected DSCR are not less than 140%. The floating rate leg of this loan £6.3 million (as at 31 December 2020) has an associated interest rate cap, hedging the risk of the all-in rate exceeding 3.5%. In January 2021, the Group received from the bank a waiver for the DSCR and the loan-to-value covenants until 30 April 2022 (inclusive) with the first test due in July 2022 based on the results for 30 June 2022. After the reporting period, the Group received from the bank a waiver for the DSCR and the loan-to-value covenants until 30 April 2023 (inclusive) with the first test due in July 2023 based on the results for 30 June 2023.

(iii) Under the facility arranged by Cornerstone Real Estate Advisers Europe LLP, a member of the MAFF Mutual Financial Group, for Park Plaza Victoria London, the borrower must ensure that the aggregate amount of the outstanding facility does not exceed 75% of the value of the hotel as set out in the most recent valuation (loan-to-value). In addition, the borrower must ensure that, on each interest payment date, the historical and projected DSCR are not less than 180%. In January 2021, the Group received from the bank a waiver for the DSCR and the loan-to-value covenants until 19 July 2022 with the first test due on 20 July 2022 based on the results for 30 June 2022. After the reporting period, the Group received from the bank a waiver for the DSCR and the loan-to-value covenants until 19 July 2023 (inclusive) with the first test due in July 2023 based on the results for 30 June 2023.

(iv) Under the Bank Hapoalim Loan for three of the Group's UK hotels and the 46 units owned within Park Plaza County Hall London, the borrowers must ensure that the aggregate amount of the outstanding loan does not exceed 65% of the value of the properties and units secured (loan-to-value). In addition, on each interest payment date, the borrowers must ensure that the historical debt service cover should be at least 110% from March 2019, rising to 120% following the third anniversary of the agreement. In June 2020, the Group received a letter from the bank confirming that the historical debt service cover covenant testing will be postponed to 30 September 2021 and the loan amortisation for Q2–Q3 2020 will be postponed to the termination date of the loan. After the reporting period, the Group received from the bank a waiver for the DSCR and the loan-to-value covenants until 30 March 2022 with the first test due on 30 April 2022 based on the results for 31 March 2022. In addition, it was agreed that the DSCR covenant for 31 March 2022 and 30 June 2022 will be set at 110% and will be tested over a period of six and nine months respectively. After the reporting period, the Group received from the bank a waiver for the DSCR covenant until 30 March 2023 (inclusive) with the first test due in April 2023 based on the results for 31 March 2023.

(v) In March 2019, W29 Owner LLC entered into a loan agreement with Bank Hapoalim New York for an amount of US$22.15 million where PPHE Hotel Group is a guarantor. Under this agreement, PPHE Hotel Group must ensure that it maintains an aggregate net worth of at least US$33 million and have liquid assets with a market value of at least US$5 million. In February 2020, the Group exercised the extension option in this facility to extend the maturity date for a year until March 2021. In March 2021 it was agreed with the bank that the maturity date will be extended to September 2021 and in September 2021 the maturity date was further extended to 13 September 2022.

(vi) Under the Bank Hapoalim loan relating to art'otel London Hoxton, the borrower must ensure that the aggregate amount of the outstanding facility does not exceed 75% of the value of the hotel as set out in the most recent valuation from 7 April 2022 onwards. The borrower must also ensure that the DSCR is not less than 1.2 on each quarter test date starting from either 7 April 2025 or one year after practical completion. Any breach of the aforementioned covenants is subject to an equity cure option. In addition, on each test date, the total equity of PPHE Hotel Group must not be less than: (i) £150 million; and (ii) 20% of its asset value.

(vii) Under the £20 million financing agreement entered into by Waterloo Hotel Holding B.V. with Santander UK Plc on 23 June 2020, the borrower must ensure that the amount of the outstanding loan does not exceed 40% of the value of Park Plaza London Waterloo based on the most recent valuation. The DSCR must also not be less than 125% on each quarter with first test date being 30 September 2021. In June 2021 the Group received from the bank a waiver for the DSCR until 30 June 2022 (inclusive) with the first test due in July 2022 based on the results for 30 June 2022. After the reporting period, the first date of the financial covenants was further extended to 30 March 2023 (inclusive) with the first test due in April 2023 based on the results for 31 March 2023.

Note 15 Borrowings continued

(viii) Under the loan agreement granted by Santander UK Plc to Park Plaza Hotels (UK) Limited pursuant to the Coronavirus Large Business Interruption Loan Scheme (the 'CLBILS Facility'), the borrower must ensure that at all times its tangible net worth exceeds £300 million. In addition, the borrower must: (i) ensure that the UK borrowings to aggregate UK asset value does not at any time exceed 60%; (ii) ensure that on each test date, the UK interest cover ratio for the borrower and its subsidiaries is greater than 1.25 with first test date being 31 December 2021; (iii) in the event that the Waterloo facility referred to above at paragraph xii is repaid or cancelled, ensure that the aggregate market value of all hotels unencumbered by any security (determined in accordance with the most recent valuation of such hotels) is at least two times the amount of the total commitments under the CLBILS Facility; and (iv) maintain minimum liquidity of £3 million at all times. In May 2021, as part of the facility extension to £40 million, it was agreed that the first date of the financial covenants will be extended to 30 June 2022 (inclusive) with the first test due in July 2022 based on the results for 30 June 2022. After the reporting period, the first date of the financial covenants was further extended to 30 March 2023 (inclusive) with the first test due in April 2023 based on the results for 31 March 2023.

(ix) Under the £1.6 million loan granted by Santander UK Plc to PPHE Living Limited dated 29 January 2020, the ICR for each 12-month period must not be less than 125%. In addition, the borrower must ensure that the outstanding loan does not exceed 65% of the value of the borrower's freehold property at Acton Lane (based on the most recent valuation).

(x) Under the Deutsche Hypothekenbank AG facility for ACO Hotel Holding B.V. and ABK Hotel Holding B.V., the borrower must ensure throughout the entire term of the loan that the outstanding amount of the loan does not exceed 70% of the value of the properties and that the DSCR is not less than 110%. In September 2020, the Group received a letter from the bank confirming that all financial covenant testing will be postponed to 31 December 2022 and the loan amortisation for Q2–Q3 2020 will be postponed to 31 December 2021.

(xi) Under the Deutsche Hypothekenbank AG facility for Park Plaza Nuremberg, the borrower must ensure throughout the entire term of the loan that the outstanding amount of the loan does not exceed 65% of the value of the property and that the DSCR is not less than 180%. In September 2020, the Group received a letter from the bank confirming that all financial covenant testing will be postponed to 31 December 2022 and the loan amortisation for Q2–Q3 2020 will be postponed to 31 December 2021.

(xii) Under the Zagrebačka Banka d.d. joint €32.0 million and HRK 205.0 million facilities, the borrower must ensure that at year end, based on audited standalone financial statements of the borrower, the DSCR is equal to or greater than 120% during the life of the loan and that the Net Debt/EBITDA ('net leverage ratio') is equal to or lower than 5.5 at year end 2019, is equal to or lower than 5.0 at year end 2020, and is equal to or lower than 4.5 at year end 2021 and for each succeeding calendar year during the remaining life of the loan. In November 2020, the Group received a letter from the bank confirming waiver of the net leverage ratio for 2020. In December 2021, the Group received a letter from the bank confirming waiver of the net leverage ratio for 2021.

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

(xiv) Under the Erste Bank €5.0 million and €10.2 million facilities, the borrower must ensure throughout the entire term of the loan that the interest coverage ratio (ICR) is at least three times EBITDA and net leverage which is equal to or lower than 7.0 at year end 2022 and equal or lower than 4.5 thereafter. The first covenant test will be based on the annual audited consolidated financial statements for 2022 and is due by the end of June 2023.

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

Notes to consolidated financial statements continued
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Note 15 Borrowings continued

of the loan is also subject to a deposit of up to €7.0 million, which has a release mechanism embedded subject to certain defined conditions. The net assets test has to be at least 30%.

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

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

(xviii) Under the Zagrebačka banka d.d. loan signed in September 2021 as part of HBOR's programme for insurance of liquidity portfolio for exporters related with COVID-19 measurements in amount €20 million (£16.8 million) the borrower must ensure that DSCR is equal or greater than 3.5 and that the ratio between financial debt and EBITDA is lower than 4.5 starting at December 2023 and onwards.

(xix) Under the Erste Group Bank AG loan signed in November 2021 for the purpose of financing the purchase of hotel FRANZ ferdinand Mountain Resort in Nassfeld, Austria, in the total amount €10.5 million (£8.8 million) the borrower has to comply with following standalone covenants: projected DSCR is equal or greater than 1.15 at year end 2021 and historical DSCR is equal or greater than 1.35 from year end 2023 onwards. The amount of the loan cannot exceed 75% of the property used as collateral starting year end 2021 to year end 2023 and 65% at the year end 2024 until year end 2026.

As at 31 December 2021, taking into account all the covenant waivers received, the Group is in compliance with all of its banking covenants.

Note 16 Provisions

Provision for concession fee on land

In accordance with the provisions of the Tourist and Other Construction Land Not Appraised During the Transition and Privatisation Process Act from 2010 (TLA), Arena submitted requests to the Republic of Croatia and the relevant municipality for the award of tourist land concessions in relation to land areas in eight campsites and three tourist resorts in Croatia. The TLA failed to produce the desired impact and to resolve the issues of the ownership/use of the tourist land. This in turn caused far-reaching consequences in the form of lack of investments into tourist land, reduced international competitiveness of Croatian tourism due to lack of development and reduced income of the State and local municipalities. The Croatian Government therefore adopted a new legislation to deal with, inter alia, the so-called tourist land and proprietary relationships between the owner of such land and the owner of the facilities built thereon. In May 2020, the new Non-Appraised Construction Land Act (NCLA) replaced the TLA and all initiated requests based on the TLA were suspended. Pursuant to the NCLA, the ownership of the land underneath the facilities in the campsites that were assessed into the share capital of Arena is now also legally recognised as ownership of Arena, while the Republic of Croatia will be the sole owner of the other land in the campsites. In respect to the tourist resorts, the ownership of the land underneath the facilities that have been assessed into the share capital of Arena is now also recognised as ownership of Arena, together with the land surrounding such facilities that makes (together with the relevant facilities) the technological and functional unity. Tourist land in the tourist resorts which was not assessed into the share capital of Arena and which serves the standard usage of the resorts shall be owned by a local municipality. In relation to the land in campsites owned by the Republic of Croatia and the land in tourist reports owned by the local municipalities, Arena will ex lege be deemed long-term (50 years) lessee and will conclude the lease agreement with the State/local municipalities once the procedure envisaged by the NCLA will be complete. However, the Government has still not adopted the secondary level regulation that would govern the rent payable by the lessees for such lease nor have the procedures required for the implementation of the Act and actual registration of the ownership over the respective part of land in campsites/tourist resorts been completed. This creates uncertainties in relation to the current and future assets and obligations of Arena. While the TLA was still applicable, Arena paid 50% of the concession fees in respect of the eight campsites and accrued the remaining 50% until entering into the envisaged concession agreements. As the new NCLA has not yet set the rules for the rent payable based on the lease agreement, Arena made a conservative assessment of concession fees based on the most up-to-date available information. In 2021 no additional provision was recorded and the concession fee for the year in the amount of £1.7 million was recognised in the financial position under Other payables and accruals. There was no payment of concession fee during 2021.

Note 16 Provisions continued

	2021 £'000	2020 £'000
Balance as at 1 January	**5,399**	4,730
Additions	**–**	476
Exchange rate differences	**(342)**	193
Balance as at 31 December	**5,057**	5,399

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

	2021 £'000	2020 £'000
Total liability	**142,573**	143,760
Due from investors for reimbursement of capital expenditure	**(18,022)**	(17,605)
	124,551	126,155

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

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

Note 18 Other financial liabilities

	As at 31 December	
	2021 £'000	2020 £'000
Derivative financial instruments	**457**	879
Lease liabilities (see Note 19)	**245,274**	243,650
Share appreciation rights (Note 6c(i))	**4,860**	–
Other	**2,771**	289
	253,362	244,818

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Note 19 Leases
Group as a lessee
The Group has lease contracts for various items which mainly includes hotels, including land, offices and storage buildings. Leases of land have lease terms between 125 and 199 years while hotel buildings, offices and storage have lease terms between 2 and 95 years. The Group's obligations under its leases are secured by the lessor's title to the leased assets.

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

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

	Land £'000	Hotel buildings £'000	Offices and storage £'000	Furniture, fixtures and equipment £'000	Total £'000
Cost:					
Balance as at 1 January 2021	**86,693**	**130,465**	**11,045**	**23,873**	**252,076**
Additions during the year	**–**	**212**	**–**	**–**	**212**
Disposal	**–**	**–**	**(2,381)**	**–**	**(2,381)**
Re-measurement of right-of-use assets	**3,261**	**919**	**46**	**–**	**4,226**
Adjustment for exchange rate differences	**(1,500)**	**(2,564)**	**(70)**	**–**	**(4,134)**
Balance as at 31 December 2021	**88,454**	**129,032**	**8,640**	**23,873**	**249,999**
Accumulated depreciation and impairment:					
Balance as at 1 January 2021	**4,934**	**11,184**	**1,928**	**10,236**	**28,282**
Provision for depreciation	**461**	**2,699**	**1,117**	**2,390**	**6,667**
Disposal	**–**	**–**	**(290)**	**–**	**(290)**
Adjustment for exchange rate differences	**(11)**	**(552)**	**(18)**	**–**	**(581)**
Balance as at 31 December 2021	**5,384**	**13,331**	**2,737**	**12,626**	**34,078**
Net book value as at 31 December 2021	**83,070**	**115,701**	**5,903**	**11,247**	**215,921**
Cost:					
Balance as at 1 January 2020	85,541	117,965	8,791	23,873	236,170
Additions during the year	–	12,612	2,565	–	15,177
Disposal	–	–	(366)	–	(366)
Re-measurement of right-of-use assets	–	–	–	–	–
Adjustment for exchange rate differences	1,152	(112)	54	–	1,094
Balance as at 31 December 2020	86,693	130,465	11,044	23,873	252,075
Accumulated depreciation and impairment:					
Balance as at 1 January 2020	4,470	4,948	924	7,838	18,180
Provision for depreciation	462	3,406	1,198	2,398	7,464
Impairment	–	2,781	–	–	2,781
Disposal	–	–	(197)	–	(197)
Adjustment for exchange rate differences	2	49	3	–	54
Balance as at 31 December 2020	4,934	11,184	1,928	10,236	28,282
Net book value as at 31 December 2020	81,759	119,281	9,116	13,637	223,793

The amount of borrowing costs capitalised during the year ended 31 December 2021 was £212 thousand (2020: £206 thousand).

Note 19 Leases continued
Impairment
The Group performed impairment test in December 2021 for all individual right-of-use assets where there was an indication of possible loss. Each asset had been tested on Cash Generating Unit level (CGU-level).

The discount rate applied to cash flow projections was 8.5%. Impairment loss has been recognised for the right-of-use asset where carrying amount exceeded recoverable amount. Based on this analysis it was concluded that there was no impairment. In December 2020 impairment loss in the amount of £2,781 thousand was recorded within Depreciation, amortization and impairment expenses in the income statement.

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

	2021 £'000	2020 £'000
As at 1 January	**254,044**	231,594
Additions	**–**	14,671
Disposals	**(2,088)**	(174)
Accretion of interest[1]	**7,473**	9,542
Reclassification	**(158)**	–
Payments	**(13,011)**	(6,898)
Re-measurement of lease liability recorded in other expenses	**3,565**	3,369
Re-measurement of lease liability adjusted against right-of-use assets	**4,226**	–
Exchange rate differences recorded in Profit & Loss	**84**	2,073
Adjustments for foreign exchange differences	**(2,517)**	(133)
As at 31 December	**251,618**	254,044
Current	**6,344**	10,394
Non-current	**245,274**	243,650

1 The amount of borrowing costs capitalised during the year ended 31 December 2021 was £212 thousand (2020: £206 thousand).

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For the year ended 31 December 2021

Note 19 Leases continued

Set below is a split of the lease liabilities, cash payments and effect in the income statement between lease agreements for a period longer than 40 years ('long-term leases') and leases for a period of up to 40 years ('short-term leases').

	Year ended 31 December 2021 £'000		
	Long-term leases (>40)	**Short-term leases (<40)**	**Total**
Lease liabilities	**216,204**	**35,414**	**251,618**
Fixed lease payments	**9,176**	**3,835**	**13,011**
Accretion of interest	**7,380**	**93**	**7,473**
Depreciation	**3,611**	**3,056**	**6,667**

	Year ended 31 December 2020 £'000		
	Long-term leases (>40)	Short-term leases (<40)	Total
Lease liabilities	209,926	44,118	254,044
Fixed lease payments	4,742	2,156	6,898
Accretion of interest	8,594	948	9,542
Depreciation	3,731	3,698	7,429

Details regarding certain long-term lease agreements are as below:

(a) On 29 January 2020 the Group through its subsidiary Arena Hospitality Group d.d. ('Arena') entered into a 45-year lease for the development and operation of a contemporary branded hotel in Zagreb, Croatia. The development, which is subject to obtaining the necessary permits, involves the conversion of an iconic building in a prime location in the historic heart of the city. Once opened, this 118-room hotel will include a destination restaurant and bar, wellness and spa facilities, fitness centre, event space and parking.

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

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

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

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

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

The following are the amounts recognised in profit or loss:

Note 19 Leases continued

	As at 31 December	
	2021 £'000	2020 £'000
Depreciation expense and impairment of right-of-use assets	**6,667**	10,210
Interest expense on lease liabilities	**7,261**	9,336
Expense relating to low-value assets and short-term leases (included in operating expenses)	**129**	220
Expense relating to low-value assets and short-term leases (included in rent expenses)	**944**	370
Variable lease payments (included in rent expenses)	**1,561**	634
Total amount recognised in profit or loss	**16,562**	20,770

The Group had total cash outflows for leases of £15,645 thousand in 2021 (2020: £8,122 thousand).

The following provides information on the Group's variable lease payments, including the magnitude in relation to fixed payments in 2021 and 2020:

	As at 31 December 2021		
	Fixed payments £'000	**Variable payments £'000**	**Total £'000**
Fixed rent	**12,253**	**–**	**12,253**
Variable rent with minimum payment	**758**	**5**	**763**
Variable rent only	**–**	**1,556**	**1,556**

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

Note 20 Other payables and accruals

	As at 31 December	
	2021 £'000	2020 £'000
Current portion of lease liabilities	**6,344**	10,394
Current portion of share appreciation rights (Note 6c(i))	**540**	–
Employees	**1,666**	3,049
VAT and taxes	**11,891**	11,987
Accrued interest	**3,089**	3,009
Corporate income taxes	**56**	541
Accrued expenses	**20,252**	8,768
Advance payments received	**6,021**	7,426
Accrued rent	**2,458**	1,414
Variable income payment to holders of Income Units	**860**	2,226
Related parties*	**–**	2,853
	53,177	51,667

* See Note 30.

Notes to consolidated financial statements continued

For the year ended 31 December 2021

Note 21 Revenues

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Rooms	**84,430**	63,628
Campsites and mobile homes	**16,446**	7,815
Food and beverage	**27,814**	21,050
Minor operating (including room cancellation)	**8,277**	5,662
Management fee (see Note 14(c)(i))	**529**	418
Franchise and reservation fee (see Note 14(c)(i))	**458**	819
Marketing fee	**156**	203
Other	**3,267**	2,192
	141,377	101,787

Note 22 Operating expenses

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Salaries and related expenses	**68,710**	74,746
Franchise, reservation and commissions expenses (see Note 14(c)(i))	**12,186**	9,255
Food and beverage	**8,675**	4,923
Insurance and property taxes	**10,004**	9,841
Utilities	**7,736**	6,954
Administration costs	**3,607**	4,569
Maintenance	**4,693**	4,293
Laundry, linen and cleaning	**1,941**	1,862
Supplies	**2,186**	1,704
IT expenses	**1,639**	1,374
Communication, travel and transport	**1,141**	1,288
Marketing expenses	**1,523**	1,374
Government grants payroll	**(12,079)**	(24,076)
Government grants fixed costs	**(9,578)**	–
Defined contribution pension premiums	**3,174**	3,121
Other expenses	**8,250**	9,642
	113,808	110,870

Note 23 Financial expenses

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Interest and other finance expenses on bank loans	**24,015**	23,408
Interest on lease liabilities	**7,261**	9,336
Foreign exchange differences, net	**–**	2,395
Expense from Park Plaza County Hall London Units	**24**	8
Other	**69**	379
	31,369	35,526

Note 24 Financial income

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Income from Park Plaza County Hall London Units	**27**	–
Interest on bank deposits	**163**	132
Gain from marketable securities	**–**	123
Foreign exchange differences, net	**42**	–
Interest and other financial income from jointly controlled entities (see Note 30(b))	**101**	136
	333	391

Note 25 Other income and expenses

a. Other expenses

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Capital loss on buy-back of Income Units previously sold to private investors	**543**	–
Government settlement purchase of Guest House Hotel Riviera Pula (see Note 5d)	**–**	1,544
Remeasurement of lease liability[1]	**3,565**	3,369
Revaluation of Income Units Park Plaza County Hall London (see Note 7)	**–**	2,402
Loss on disposal of fixed assets[2]	**436**	1,774
Other non-recurring expenses (including preopening expenses)	**305**	647
Loan early repayment break costs (see Note 15b)	**505**	–
Business combination acquisition costs (see Notes 3a and 3b)	**1,017**	–
Arena – legal settlement[3]	**3,047**	–
	9,418	9,736

1 This amount represents remeasurement of the Waterloo lease liability based on the 2% collar (see Note 19).
2 Mainly relates to the write-off value of fixed assets due to reconstruction of Hotel Brioni Pula (disposal of asset due to reconstruction).
3 In 2013 Tehnoekologija d.o.o. (TE) initiated a litigation procedure against Arena for the compensation of the investments that TE supposedly had made in the campsite Kažela, Medulin, between the years 1998 and 2005 when Kažela, Medulin, was operated by TE based on the lease agreement entered into between Arena and TE. Arena and TE are currently in an advanced stage of reaching a settlement for this long-term litigation which will likely result in a compensation to TE in the amount of HRK 26 million (£3 million). An accrual for the expected settlement amount was recorded in 2021 under other payables and accruals.

b. Other income

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Insurance settlement[1]	**–**	9,982
Revaluation of share appreciation rights (see Note 6c(i))	**1,750**	–
Revaluation of Income Units Park Plaza County Hall London (see Note 7)	**602**	–
Gain on sale of fixed assets	**1,432**	317
	3,784	10,299

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

Notes to consolidated financial statements continued
For the year ended 31 December 2021

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

	Year ended 31 December 2021 £'000	2020 £'000
Guaranteed return (see Note 2(k))	–	565
Variable return (see Note 2(k))	**2,567**	2,646
Reimbursement of depreciation expenses (see Note 2(k))	**(618)**	(942)
Change in expected cash flow income swaps	–	310
	1,949	2,579

Note 27 Income taxes
a. Tax benefit (expense) included in the income statement

	Year ended 31 December 2021 £'000	2020 £'000
Current taxes	**(350)**	(458)
Adjustments in respect of current income tax of previous year	**61**	(626)
Deferred taxes	**5,340**	1,808
	5,051	724

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

	Tax loss carry forward and timing difference on provisions £'000	Property, plant and equipment and intangible assets £'000	Tax incentives £'000	Total £'000
Balance as at 1 January 2021	**4,208**	**(11,999)**	**6,043**	**(1,748)**
Amounts charged to income statement	**3,962**	**1,378**	**–**	**5,340**
Amount recognised in business combination (see Note 3(a))	**378**	**(908)**	**–**	**(530)**
Adjustments for exchange rate differences	**(214)**	**520**	**(383)**	**(77)**
Balance as at 31 December 2021	**8,334**	**(11,009)**	**5,660**	**2,985**
Balance as at 1 January 2020	2,851	(10,324)	4,726	(2,747)
Amounts charged to income statement	955	(251)	1,104	1,808
Change in tax rate	47	(757)		(710)
Reclassification	292	(292)		
Adjustments for exchange rate differences	63	(375)	213	(99)
Balance as at 31 December 2020	4,208	(11,999)	6,043	(1,748)

Note 27 Income taxes continued
The above deferred taxes have been set off when they relate to the same jurisdictions and presented in the consolidated financial statements as follows:

	As at 31 December 2021 £'000	2020 £'000
Deferred tax assets	**10,221**	6,724
Deferred tax liabilities	**(7,236)**	(8,472)
	2,985	(1,748)

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

	Year ended 31 December 2021 £'000	2020 £'000
Profit before income taxes	**(57,555)**	(94,688)
Expected tax at the tax rate of the United Kingdom 19% (2020: 19%)	**10,936**	17,991
Adjustments in respect of:		
Effects of other tax rates	**2,594**	2,771
Non-deductible expenses	**(8,269)**	(7,496)
Utilisation of carried forward losses and temporary differences for which deferred tax assets were not previously recorded	**291**	338
Temporary differences for which no deferred tax asset was recorded	**(211)**	(1,762)
Non-taxable income	**114**	(202)
Unrecognised current year tax losses	**(5,299)**	(12,351)
Recognition of deferred tax asset	**3,634**	964
Recognition of investment tax credit (see Note 27(f))	**–**	1,104
Other differences (including change in tax rate)	**1,261**	(633)
Income tax benefit (expense) reported in the income statement	**5,051**	724

d. Tax laws applicable to the Group companies:

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

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

1. Taxation in The Netherlands: corporate income tax rate is 25%.
2. Taxation in The United Kingdom: corporate income tax rate for domiciled companies and for non-domiciled companies is 19% (2020: 19%).
3. Taxation in Germany: aggregated corporate tax rate and trade income rate 29.7%.
4. Taxation in Hungary: corporate income tax rate 9%.
5. Taxation in Croatia: corporate income tax rate 18%.

Notes to consolidated financial statements continued

For the year ended 31 December 2021

Note 27 Income taxes continued

Corporate tax rate in the UK – In March 2021, the UK Government adopted the Spring Budget 2021 which included an increase in the UK corporate tax rate from 19% to 25% from 1 April 2023.

Corporate tax rate in the Netherlands – In 2020, under the 2021 tax plan which was adopted on 15 December 2020 it was decided that the reduction in corporate income tax rate to 21.7% will be cancelled and the tax rate will remain at 25%. In 2021, under the 2022 tax plan which was adopted on 21 December 2021, it was decided that the corporate income tax rate will increase to 25.8% starting 1 January 2022.

e. **Losses carried forward for tax purposes**

The Group has carried forward losses for tax purposes estimated at approximately £200.8 million (2020: £184.9 million). The Group did not establish deferred tax assets in respect of losses amounting to £161.5 million (2020: £166.2 million) which may be carried forward indefinitely.

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

f. **Tax incentives**

In May 2019, based on confirmation from the Ministry of Economy and pursuant to the Investment Promotion and Development of Investment Climate Act in Croatia, Arena became eligible to claim incentive allowances. Investments eligible for incentives are investments done in Arena One 99 Glamping Campsite, Arena Grand Kažela Campsite, Hotel Brioni, Verudela Beach self-catering apartment complexes, among others.

Arena has the right to use the investment tax credits until 2028. The execution of the investment project is subject to supervision by the relevant institutions throughout the period of use of the tax credits and Arena will need to present regular annual reports to the tax authority in which it will evidence that the conditions for the use of the tax credits are met. In 2020 Arena recognised a deferred tax asset in relation to the investments that took place in 2020 with a total amount of HRK 9.5 million (£1.1 million).

During 2021 Arena continued to invest in its properties however since the total expected tax credit exceeds the expected future tax liability in the periods that the tax credit can be utilised, no additional deferred tax asset was recognised.

Note 28 Earnings per share

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

	Year ended 31 December	
	2021 £'000	2020 £'000
Loss attributable to equity holders of the parent	**(52,129)**	(81,731)
Weighted average number of ordinary shares outstanding	**42,539**	42,466

Potentially dilutive instruments 177,027 in 2021 are not considered, since their effect is antidilutive (increase of loss per share) (2020: 140,140 were not considered, since their effect is antidilutive).

Note 29 Segments

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

	Year ended 31 December 2021							
	The Netherlands £'000	**Germany £'000**	**United Kingdom £'000**	**Croatia £'000**	**Other[1] £'000**	**Management and Central Services £'000**	**Adjustments[2] £'000**	**Consolidated £'000**
Revenue								
Third party	10,352	6,618	75,277	44,618	853	3,659		141,377
Inter-segment						14,308	(14,308)	
Total revenue	10,352	6,618	75,277	44,618	853	17,967	(14,308)	141,377
Segment EBITDA	1,071	6,671	11,221	14,556	(853)	(7,601)		25,065
Depreciation, amortisation and impairment								(43,283)
Financial expenses								(31,369)
Financial income								333
Net expenses for liability in respect of Income Units sold to private investors								(1,949)
Other income (expenses), net								(5,634)
Share in result of joint ventures								(718)
Profit before tax								(57,555)

1. Includes art'otel Budapest in Hungary, 88 Rooms Hotel in Belgrade, Serbia, Londra & Cargill Hotel in Rome, Italy, FRANZ Ferdinand Mountain Resort in Nassfeld, Austria.
2. Consist of inter-company eliminations.

	The Netherlands £'000	**Germany £'000**	**United Kingdom £'000**	**Croatia £'000**	**Other £'000**	**Adjustments[2] £'000**	**Consolidated £'000**
Geographical information							
Non-current assets[1]	188,701	71,402	869,324	217,779	64,442	53,878	1,465,526

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

Notes to consolidated financial statements continued

For the year ended 31 December 2021

Note 29 Segments continued

	Year ended 31 December 2020							
	The Netherlands £'000	Germany £'000	United Kingdom £'000	Croatia £'000	Other[1] £'000	Management and Central Services £'000	Adjustments[2] £'000	Consolidated £'000
Revenue								
Third party	14,948	7,750	56,544	18,729	1,056	2,760		101,787
Inter-segment						11,633	(11,633)	–
Total revenue	14,948	7,750	56,544	18,729	1,056	14,393	(11,633)	101,787
Segment EBITDA	(54)	(255)	1,466	362	(295)	(11,312)	–	(10,087)
Depreciation, amortisation and impairment								(46,624)
Financial expenses								(35,526)
Financial income								391
Net expenses for liability in respect of Income Units sold to private investors								(2,579)
Other expenses, net								563
Share in result of joint ventures								(826)
Profit before tax								(94,688)

1. Includes art'otel Budapest in Hungary and 88 Rooms Hotel in Belgrade, Serbia.
2. Consist of inter-company eliminations.

	The Netherlands £'000	Germany £'000	United Kingdom £'000	Croatia £'000	Other £'000	Adjustments[2] £'000	Consolidated £'000
Geographical information							
Non-current assets[1]	207,844	79,053	854,517	216,532	19,937	65,022	1,442,905

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

Note 30 Related parties

a. Balances with related parties

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
Loans to joint ventures (see Note 6a)	**5,222**	5,066
Short-term receivables	**56**	–
Short-term payable	**–**	(88)
Payable to GC Project Management Limited	**(50)**	(903)
Payable to Gear Construction UK Limited	**(1,082)**	(1,862)

Note 30 Related parties continued

b. Transactions with related parties

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
Cost of transactions with GC Project Management Limited	**(60)**	(2,784)
Cost of transactions with Gear Construction UK Limited	**(27,735)**	(13,527)
Rent income from sub-lease of office space	**173**	–
Interest income from jointly controlled entities	**101**	95

c. Significant other transactions with related parties

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

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

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

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

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

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

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

Summary of the remuneration for Executive and Non-Executive Directors for the year ended 31 December 2021:

	Base salary and fees £'000	Salary sacrifice options £'000	Bonus £'000	Pension contributions £'000	Other benefits £'000	Total £'000
Chairman and Executive Directors	**953**	**47**	**–**	**115**	**16**	**1,131**
Non-Executive Directors	**269**	**–**	**–**	**–**	**–**	**269**
	1,222	**47**	**–**	**115**	**16**	**1,400**

Notes to consolidated financial statements continued

For the year ended 31 December 2021

Note 30 Related parties continued

Summary of the remuneration for Executive and Non-Executive Directors for the year ended 31 December 2020:

	Base salary and fees £'000	Salary sacrifice options £'000	Bonus £'000	Pension contributions £'000	Other benefits £'000	Total[1] £'000
Chairman and Executive Directors	730	9	75[1]	114	16	944
Non-Executive Directors	232	–	–	–	–	232
	962	9	75	114	16	1,176

1 An Executive Director is entitled to a bonus of £75,000 in respect of 2019 financial year which is subject to leaver provisions. This bonus was not paid in 2020.

Directors' interests in employee share incentive plan

As at 31 December 2021, the Executive Directors held share options to purchase 29,308 ordinary shares (2020: 179,308). 25,000 options were fully exercisable with an exercise price of £14.30 (2020: 16,667) and 4,308 options were fully exercisable with a £nil exercise price (2020: 718). No share options were granted to Non-Executive Directors of the Board.

Note 31 Financial instruments risk management objectives and policies

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

Changes in financial liabilities arising from financing activities

	As at 1 January 2021 £'000	Cash flows £'000	Re-measurement through profit and loss £'000	Re-measurement against right-of-use assets £'000	Foreign exchange movement £'000	New leases/ loans, net £'000	Other £'000	As at 31 December 2021 £'000
Non-current interest-bearing loans and borrowings	721,006	–	–	–	(18,013)	38,886	(12,595)	729,284
Non-current lease liability	243,650	–	3,565	4,226	(2,250)	(2,088)	(1,829)	245,274
Financial liability in respect of Income Units sold to private investors	126,155	(1,390)	–	–	–	–	(214)	124,551
Derivative financial instruments	880	–	–	–	(53)	–	(370)	457
Non-current Share appreciation rights	–	6,435	(1,575)	–	–	–	–	4,860
Current Share appreciation rights	–	715	(175)	–	–	–	–	540
Current interest-bearing loans and borrowings	36,369	(9,486)	–	–	(844)	(2,388)	15,189	38,840
Current lease liability[1]	10,393	(6,825)	–	–	(267)	–	3,043	6,344
	1,138,453	(10,551)	1,815	4,226	(21,427)	34,410	3,224	1,150,150

1 Includes accrued interest on deferred lease payments.

Note 31 Financial instruments risk management objectives and policies continued

Changes in financial liabilities arising from financing activities

	As at 1 January 2020 £'000	Cash flows £'000	Re-measurement through profit and loss £'000	Re-measurement against right-of-use assets £'000	Foreign exchange movement £'000	New leases/ loans, net £'00	Other £'000	As at 31 December 2020 £'000
Non-current interest-bearing loans and borrowings	664,345	(7,530)	–	12,353	54,267	(3,718)	1,289	721,006
Non-current lease liability	227,998	(1,461)	3,369	(180)	13,552	(1,700)	2,072	243,650
Financial liability in respect of Income Units sold to private investors	126,704	–	–	–	–	–	(549)	126,155
Derivative financial instruments	674	–	–	42	–	–	164	880
Current interest-bearing loans and borrowings	13,916	–	–	(173)	19,508	3,718	(600)	36,369
Current lease liability[1]	3,596	(107)	–	47	–	6,857	–	10,393
	1,037,233	(9,098)	3,369	12,089	87,327	5,157	2,376	1,138,453

1 Includes accrued interest on deferred lease payments.

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

a. Interest rate risk

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

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

The fair value of the swaps of the Group as at 31 December 2021 amounts to a liability of £457 thousand (2020: liability of £879 thousand).

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

b. Credit risk

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

Notes to consolidated financial statements continued

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Note 31 Financial instruments risk management objectives and policies continued

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

c. Liquidity risk

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

Despite the impact of COVID-19 on trading cash flows, the Group continues to hold a strong liquidity position with an overall consolidated cash balance of £136.8 million as at 31 December 2021 and undrawn cash facilities of £76.8 million (for further details see Note 1).

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2021 and 2020 based on contractual undiscounted payments.

	As at 31 December 2021					
	Less than 3 months £'000	3 to 12 months £'000	Year 2 £'000	Year 3 to 5 £'000	> 5 years £'000	Total £'000
Interest-bearing loans and borrowings[1]	15,863	47,249	46,130	492,447	299,642	901,331
Financial liability in respect of Income Units sold to private investors[2]	493	1,477	9,198	39,420	124,551	175,139
Derivative financial instruments	57	171	229	–	–	457
Lease liability[3]	3,653	18,019	12,962	36,170	605,497	676,301
Trade payables	16,650	–	–	–	–	16,650
Other liabilities	23,097	24,035	4,860	–	16,304	68,296
	59,813	90,951	73,379	568,037	1,045,994	1,838,174

	As at 31 December 2020					
	Less than 3 months £'000	3 to 12 months £'000	Year 2 £'000	Year 3 to 5 £'000	> 5 years £'000	Total £'000
Interest-bearing loans and borrowings[1]	15,039	44,779	45,318	155,888	638,367	899,391
Financial liability in respect of Income Units sold to private investors[2]	–	1,970	9,198	39,420	126,155	176,743
Derivative financial instruments	110	330	439	–	–	879
Lease liability[3]	3,239	9,786	13,015	39,363	609,724	675,127
Trade payables	6,502	–	–	–	–	6,502
Other liabilities	22,392	18,671	–	–	12,331	53,394
	47,282	75,536	67,970	234,671	1,386,577	1,812,036

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

Note 31 Financial instruments risk management objectives and policies continued

d. Capital management

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

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

	2021 £'000	2020 £'000
Interest-bearing bank loans and borrowings	768,124	757,375
Less – cash and cash equivalents	(136,802)	(114,171)
Less – long-term restricted cash	(8,121)	(2,261)
Less – short-term restricted cash	(5,204)	(4,777)
Less – investments in marketable securities	(22)	(27)
Net debt	617,975	636,139
Equity	447,211	404,953
Hedging reserve	434	703
Total capital	447,645	405,656
Capital and net debt	1,065,620	1,041,795
Gearing ratio	58.0%	61.1%

e. Fair value of financial instruments

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

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

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

Fair value hierarchy

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

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

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

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

Notes to consolidated financial statements continued

For the year ended 31 December 2021

Note 31 Financial instruments risk management objectives and policies continued

Fair value of investments in marketable securities is derived from quoted market prices in active markets. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1. The Group enters into derivative financial instruments with financial institutions with investment grade credit ratings.

Derivatives are valued using valuation techniques for swap models, using present value calculations. The models incorporate various inputs, including the credit quality of counterparties, and interest rate curves. The Group also granted share appreciation rights (SAR) of the Company to Clal (see Note 6c) which is valued by using the Black–Scholes model. In addition, the Group also holds 46 Income Units in Park Plaza County Hall London which were valued by external valuator using a discounted cash flow technique.

These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

As at 31 December 2021, the Group held the following financial instruments measured at fair value:

Liabilities

	31 December 2021 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Interest rate swaps used for hedging	**457**	**–**	**457**	**–**
Share appreciation rights	**5,400**	**–**	**5,400**	**–**

Assets

	31 December 2021 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Investments in marketable securities	**22**	**22**	**–**	**–**
Income Units in Park Plaza County Hall London	**15,800**	**–**	**15,800**	**–**

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

Liabilities

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

Assets

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

Note 31 Financial instruments risk management objectives and policies continued

During 2021 and 2020, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

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

	Carrying amount 31 December		Fair value 31 December	
	2021 £'000	2020 £'000	**2021 £'000**	2020 £'000
Financial liabilities				
Bank borrowings	**768,124**	757,375	**784,167**	792,521

Note 32 Subsequent events

After the balance sheet date Londra Cargill Parent S.r.l, a wholly owned subsidiary of the Company, entered into a €25 million (£21 million) facility with UniCredit S.p.A. maturing in 2026 (the 'Facility'). The Facility consists of two tranches: Tranche A in the amount of €17.25 million is available for immediate drawdown upon signing the facility agreement and Tranche B in the amount of €7.75 million will be available for drawdown upon completion of the hotel refurbishment and meeting certain conditions.

Appendices

Subsidiaries included in the Group

Name of company	Principal activity	Country of incorporation	Direct and indirect holdings %
1 Westminster Bridge Plaza Management Company Limited	Hotel operation	United Kingdom	51.2
A40 Data Centre B.V.	Holding company	Netherlands	100
A40 Office B.V.	Holding company	Netherlands	100
ABK Hotel Holding B.V.	Holding company	Netherlands	52.95
ACO Hotel Holding B.V.	Holding company	Netherlands	52.95
Amsterdam Airport Hotel Holding B.V. (formerly known as Victoria Schiphol Holding B.V.)	Holding company	Netherlands	100
Amsterdam Airport Hotel Operator B.V.	Holding company	Netherlands	100
Arena 88 Rooms Holding d.o.o.	Hotel operation	Serbia	52.95
ARENA FRANZ Ferdinand GmbH	Hotel company	Austria	52.95
Arena Hospitality Group d.d.	Hotel operation	Croatia	52.95
Arena Hospitality Management d.o.o.	Management	Croatia	52.95
art'amsterdam Hotel Operator B.V.	Hotel operation	Netherlands	100
art'otel Berlin City Center West GmbH	Hotel operation	Germany	52.95
art'otel köln betriebsgesellschaft mbH	Hotel operation	Germany	52.95
Art'otel (I.L.) Management Services Limited	Holding company	Israel	100
Aspirations (Limited)	Holding company	Guernsey	51
Bora B.V. (formerly known as WH/DMREF Bora B.V.)	Holding company	Netherlands	100
Bora Finco B.V.	Holding company	Netherlands	100
County Hall Hotel Holdings B.V. (formerly known as PPHE Arena Holding B.V.)	Holding company	Netherlands	100
Dvadeset Osam d.o.o. (formerly known as W2005/Dvadeset Osam d.o.o.)	Holding company	Croatia	52.95
Eindhoven Hotel Operator B.V.	Hotel operation	Netherlands	100
Euro Sea Hotels N.V.	Holding company	Netherlands	100
Germany Real Estate B.V.	Holding company	Netherlands	52.95
Golden Wall Investments Limited	Finance company	British Virgin Islands	100
Grandis Netherlands Holding B.V.	Holding company	Netherlands	100
Hotel Club Construction B.V. (formerly Hotel Maastricht B.V.)	Holding company	Netherlands	100
Hotel Leeds Holding B.V.	Holding company	Netherlands	100
Hotel Nottingham Holding B.V.	Holding company	Netherlands	100
Hoxton Hotel Operator Limited	Hotel operation	United Kingdom	51
Leeds Hotel Operator Limited (formerly Nottingham Park Plaza Hotel Operator Limited)	Hotel operation	United Kingdom	100
Leno Investment Limited	Holding company	Guernsey	100
Londra Cargill Parent S.r.l.	Holding company	Italy	100
Marlbray Limited	Holding company	United Kingdom	100
Mazurana d.o.o.	Holding company	Croatia	52.95
North Lambeth Holding B.V.	Holding company	Netherlands	100

Name of company	Principal activity	Country of incorporation	Direct and indirect holdings %
Nottingham Hotel Operator Limited	Hotel operation	United Kingdom	100
Oaks Restaurant Operator Limited	Hotel operation	United Kingdom	100
Park Plaza Berlin Hotelbetriebsgesellschaft mbH (in liquidation)	Hotel operation	Germany	52.95
Park Plaza County Hall London Ltd	Holding company	United Kingdom	11.50
Park Plaza Germany Holdings GmbH	Holding company	Germany	52.95
Park Plaza Hospitality Services (UK) Limited	Hotel operation	United Kingdom	100
Park Plaza Hotels (Germany) Services GmbH	Hotel operation	Germany	52.95
Park Plaza Hotels (UK) Limited	Holding company	United Kingdom	100
Park Plaza Hotels (UK) Services Limited	Management	United Kingdom	100
Park Plaza Hotels Berlin Wallstrasse GmbH	Hotel operation	Germany	52.95
Park Plaza Hotels Europe (Germany) B.V.	Holding company	Netherlands	100
Park Plaza Hotels Europe B.V.	Management	Netherlands	100
Park Plaza Hotels Europe Holdings B.V.	Holding company	Netherlands	100
Park Plaza Nürnberg GmbH	Hotel operation	Germany	52.95
Park Royal Hotel Holding B.V. (formerly known as Club A40 Holding B.V.)	Holding company	Netherlands	100
Park Royal Hotel Operator Limited (formerly known as Club A40 Hotel Operator Limited)	Hotel operation	United Kingdom	100
Parkvondel Hotel Holding B.V.	Holding company	Netherlands	100
Parkvondel Hotel Operator B.V.	Hotel operation	Netherlands	100
Parkvondel Hotel Real Estate B.V.	Holding company	Netherlands	100
PPHE Art Holding B.V.	Holding company	Netherlands	100
PPHE Coop B.V.	Holding company	Netherlands	100
PPHE Germany B.V.	Holding company	Netherlands	100
PPHE Germany Holdings GmbH	Holding company	Germany	52.95
PPHE Headco Limited	Holding company	United Kingdom	100
PPHE Holdings Limited	Holding company	United Kingdom	100
PPHE Hotel Group Limited	Holding company	Guernsey	100
PPHE Hoxton B.V.	Holding company	Netherlands	51
PPHE Living Limited	Holding company	United Kingdom	100
PPHE Management (Croatia) B.V.	Holding company	Netherlands	100
PPHE Netherlands B.V. (formerly Maastricht Hotel Holding B.V.)	Holding company	Netherlands	100
PPHE NL Region B.V.	Holding company	Netherlands	100
PPHE Nürnberg Operator Hotelbetriebsgesellschaft mbH	Hotel operation	Germany	52.95
PPHE Support Services Limited	Hotel operation	United Kingdom	100
PPHE UK Holding B.V. (formerly Club Euro Hotels B.V.)	Holding company	Netherlands	100
PPHE USA B.V.	Holding company	Netherlands	100
PPHE USA Holding B.V.	Holding company	Netherlands	100
PPHE West 29th Street USA Inc	Holding company	Delaware	100
PPWL Parent B.V.	Holding company	Netherlands	100
Riverbank Hotel Holding B.V.	Holding company	Netherlands	51
Riverbank Hotel Operator Limited	Hotel operation	United Kingdom	51
Sherlock Holmes Hotel Shop Limited	Hotel operation	United Kingdom	100
Sherlock Holmes Park Plaza Limited	Hotel operation	United Kingdom	100

Appendices
continued

Name of company	Principal activity	Country of incorporation	Direct and indirect holdings %
Signature Sub BV (new company)	Holding company	Netherlands	51
Signature Top Ltd (new company)	Holding company	United Kingdom	51
Società Immobiliare Alessandro De Gasperis S.r.l.	Operation	Italy	100
South Bank Hotel Management Company Ltd	Holding company	United Kingdom	11.50
Suf Holding B.V.	Holding company	Netherlands	100
Sugarhill Investments B.V.	Holding company	Netherlands	52.95
SW Szállodaüzemeltetö Kft	Hotel operation	Hungary	52.95
The Mandarin Hotel B.V.	Holding company	Netherlands	100
TOZI Restaurant Operator Limited	Holding operation	United Kingdom	100
Ulika d.o.o.	Holding company	Croatia	52.95
Utrecht Hotel Holding B.V.	Holding company	Netherlands	100
Utrecht Hotel Operator B.V.	Hotel operation	Netherlands	100
Victoria Amsterdam Hotel Holding B.V.	Holding company	Netherlands	100
Victoria Amsterdam Hotel Operator B.V.	Hotel operation	Netherlands	100
Victoria London (Real Estate) B.V.	Holding company	Netherlands	100
Victoria London B.V. (formerly known as Club Luton Hotel Holding B.V. and Club Ealing Hotel Holding B.V.)	Holding company	Netherlands	100
Victoria Monument B.V.	Holding company	Netherlands	100
Victoria Park Plaza Operator Limited	Hotel operation	United Kingdom	100
W29 Development LLC	Holding company	Delaware	100
W29 Owner LLC	Holding company	Delaware	100
Waterloo Hotel Holding B.V. (formerly known as Hercules House Holding B.V.)	Holding company	Netherlands	100
Waterloo Hotel Operator Limited (formerly known as Hercules House Operator Limited)	Hotel operation	United Kingdom	100
Westminster Bridge Hotel Operator Limited	Hotel operation	United Kingdom	100
Westminster Bridge London (Real Estate) B.V.	Holding company	Netherlands	100
Westminster Bridge London B.V.	Holding company	Netherlands	100

Jointly controlled entities

Name of company	Principal Activity	Country of incorporation	Direct and indirect holdings %
art'otel berlin mitte/Park Plaza Betriebsgesellschaft mbH[1]	Hotel operation	Germany	50
Park Plaza Betriebsgesellschaft mbH[1]	Hotel operation	Germany	50
PPBK Hotel Holding B.V. (formerly known as ABK Hotel Holding B.V.)[1]	Holding company	Netherlands	50
ABM Hotel Holding B.V.[1]	Holding company	Netherlands	50

1 Indirectly held through Arena Hospitality Group d.d.

Current renovation, repositioning and pipeline projects

Project	Location	Scope	Status
Grand Hotel Brioni, Pula	Istria, Croatia	Repositioning	Opening Q2 2022
art'otel London Battersea Power Station*	London, United Kingdom	New development	Expected to open 2022
art'otel London Hoxton	London, United Kingdom	New development	Expected to open 2024
art'otel in New York City	New York City, United States	New development	Temporarily paused
88 Rooms Hotel	Belgrade, Serbia	Repositioning	In design process
Hotel Zagreb	Zagreb, Croatia	New development	Expected to open 2022
Guest House Hotel Riviera, Pula	Istria, Croatia	Repositioning	In design process
FRANZ ferdinand Mountain Resort	Nassfeld, Austria	Repositioning	In design process
Development site Park Royal London	London, United Kingdom	New development	In design process
Development site Westminster Bridge Road, London	London, United Kingdom	New development	Planning submitted
art'otel Budapest	Budapest, Hungary	Renovation	Expected to complete Q2 2022
Londra & Cargill Hotel, Rome	Rome, Italy	Repositioning	In design process

* Management contract.

Glossary

Adjusted	Excluding the effect of exceptional items and any relevant tax.
Annual General Meeting	The Annual General Meeting of PPHE Hotel Group on 17 May 2022.
Annual Report and Accounts	The Annual Report of PPHE Hotel Group in relation to the year ended 31 December 2021.
Arena Campsites	Are located in eight beachfront sites across the southern coast of Istria, Croatia. They operate under the Arena Hospitality Group umbrella, of which PPHE Hotel Group is a controlling shareholder. www.arenacampsites.com
Arena Hospitality Group	Arena Hospitality Group is also referred to as Arena and is one of the most dynamic hospitality groups in Central and Eastern Europe, currently offering a portfolio of 30 owned, co-owned, leased and managed properties with more than 10,000 rooms and accommodation units in Croatia, Germany, Hungary, Serbia and Austria. PPHE Hotel Group has a controlling ownership interest in Arena Hospitality Group. www.arenahospitalitygroup.com.
Arena Hotels & Apartments	A collection of hotels and self-catering apartment complexes offering relaxed and comfortable accommodation within beachfront locations across the historical settings of Pula and Medulin in Istria, Croatia. They operate under the Arena Hospitality Group umbrella, of which PPHE Hotel Group is a controlling shareholder.
art'otel®	A lifestyle collection of hotels that fuse exceptional architectural style with art-inspired interiors, located in cosmopolitan centres across Europe. PPHE Hotel Group is owner of the art'otel® brand worldwide. www.artotel.com
Board	Eli Papouchado (Non-Executive Chairman), Yoav Papouchado (Alternate Director), Boris Ivesha (President & Chief Executive Officer), Daniel Kos (Chief Financial Officer & Executive Director), Kevin McAuliffe (Non-Executive Deputy Chairman), Nigel Keen (Non-Executive Director & Senior Independent Director), Kenneth Bradley (Non-Executive Director), Stephanie Coxon (Non-Executive Director).
Capital expenditure	Purchases of property, plant and equipment, intangible assets, associate and joint venture investments, and other financial assets.
Company	PPHE Hotel Group Limited, a Guernsey incorporated Company listed on the Main Market of the London Stock Exchange plc.
Derivatives	Financial instruments used to reduce risk, the price of which is derived from an underlying asset, index or rate.
Direct channels	Methods of booking hotel rooms (both digital and voice) not involving third party intermediaries.
Dividend per share	Proposed/approved dividend for the year divided by the weighted average number of outstanding shares after dilution at the end of the period.
Employee engagement survey	We ask our team members to participate in a survey to measure employee engagement.
EPRA (European Public Real Estate Association)	The EPRA reporting metrics analyse performance (value, profit and cash flow) given that we have full ownership of the majority of our properties.
EPS	Earnings per share.
EU	The European Union.
Euro/€	The currency of the European Economic and Monetary Union.
Exceptional items	Items that are disclosed separately because of their size or nature.
Exchange rates	The exchange rates used were obtained from the local national banks website.
FF&E	Furniture, fittings and equipment.
Franchise	A form of business organisation in which a company which already has a successful product or service (the franchisor) enters into a continuing contractual relationship with other businesses (franchisees) operating under the franchisor's trade name and usually with the franchisor's guidance, in exchange for a fee.
Franchisee	An owner who uses a brand under licence from PPHE Hotel Group.
Goodwill	The difference between the consideration given for a business and the total of the fair values of the separable assets and liabilities comprising that business.
GRS	Guest Rating Score is the online reputation score used by ReviewPro – an industry leader in guest intelligence solutions.
Guernsey	The Island of Guernsey.
Hotel revenue	Revenue from all revenue-generating activity undertaken by managed and owned and leased hotels, including room nights, food and beverage sales.
Income Units	Cash flows derived from the net income generated by rooms in Park Plaza Westminster Bridge London, which have been sold to private investors.
Like-for-like	Results achieved through operations that are comparable with the operations of the previous year. Current years' reported results are adjusted to have an equivalent comparison with previous years' results in the same period, with similar seasonality and the same set of hotels.
Like-for-like hotels including renovation	Like-for-like hotels plus hotels under renovation during the current and/or previous financial year compared.
LSE	London Stock Exchange. PPHE Hotel Group's shares are traded on the Premium Listing segment of the Official List of the UK Listing Authority.
Number of properties	Number of owned hotel properties at the end of the period.
Number of rooms	Number of rooms in owned hotel properties at the end of the period.
Online travel agent	Online companies whose websites permit consumers to book various travel related services directly over the Internet.
parkplaza.com	Brand website for Park Plaza® Hotels & Resorts.
Park Plaza Hotel	One hotel from the Park Plaza® Hotels & Resorts brand.
Park Plaza® Hotels & Resorts	Upper upscale hotel brand. PPHE Hotel Group is master franchisee of the Park Plaza® Hotels & Resorts brand owned by Radisson Hotel Group. PPHE Hotel Group has the exclusive right to develop the brand across 56 countries in Europe, the Middle East and Africa. parkplaza.com
Pipeline	Hotels/rooms that will enter the PPHE Hotel Group system at a future date.
Pound Sterling/£	The currency of the United Kingdom.
PPHE Hotel Group	PPHE Hotel Group is also referred to as the Group and is an international hospitality real estate group. Through its subsidiaries, jointly controlled entities and associates, the Group owns, co-owns, develops, leases, operates and franchises hospitality real estate. The Group's primary focus is full-service upscale, upper upscale and lifestyle hotels in major gateway cities and regional centres, as well as hotel, resort and campsite properties in select resort destinations.
Radisson Hotel Group	Created in early 2018, one of the largest hotel companies in the world. Hotel brands owned by Radisson Hotel Group are Radisson Collection™, Radisson Blu®, Radisson®, Radisson RED®, Radisson Individuals, Park Plaza®, Park Inn® by Radisson, Country Inn & Suites® by Radisson, and Prizeotel. The portfolio of Radisson Hotel Group includes more than 1,400 hotels in operation and under development, located across 115 countries and territories, operating under global hotel brands. Jin Jiang International Holdings is the majority shareholder of Radisson Hotel Group. www.radissonhotelgroup.com
Radisson Rewards™	The hotel rewards programme of Radisson Hotel Group, including Park Plaza® Hotels & Resorts and art'otel®. The programme is owned by Radisson Hotel Group. Gold Points® is the name of the currency earned through the Radisson Rewards™ programme. www.radissonrewards.com
Responsible Business	PPHE Hotel Group's Responsible Business strategy is a genuine, active and responsible commitment to our environment and society.
Room count	Number of rooms franchised, managed, owned or leased by PPHE Hotel Group.
Subsidiary	A company over which the Group exercises control.
Weighted average number of shares outstanding during the year	The weighted average number of outstanding shares taking into account changes in the number of shares outstanding during the year.
Working capital	The sum of inventories, receivables and payables of a trading nature, excluding financing and taxation items.

Alternative Performance Measures

In order to aid stakeholders and investors in analysing the Group's performance and understanding the value of its assets and earnings from a property perspective, the Group have disclosed the following Alternative Performance Measures which are commonly used in the Real Estate and the Hospitality sectors.

Adjusted EPRA earnings	EPRA earnings with the Company's specific adjustments. The main adjustments includes removal of unusual or onetime influences and adding back the reported depreciation charge, which is based on assets at historical cost, and replacing it with a charge calculated as 4% of the Group's total revenues, representing the Group's expected average cost to upkeep the real estate in good quality.
Adjusted EPRA earnings per share	Adjusted EPRA earnings divided by the weighted average number of ordinary shares outstanding during the year.
ARR	Average room rate. Total room revenue divided by number of rooms sold.
Average room rate (ARR)	Total room revenue divided by the number of rooms sold.
Basic earnings per ordinary share	Profit available for PPHE Hotel Group equity holders divided by the weighted average number of ordinary shares in issue during the year.
Compound Annual Growth Rate – CAGR	Annual growth rate over a period of years, calculated on the basis that each year's growth is compounded, that is, the amount of growth in each year is included in the following year's number, which in turn grows further.
DSCR	EBITDA, less net expenses for financial liability in respect of Income Units sold to private investors and lease payments, divided by the sum of interest on bank loans and yearly bank loans redemption.
Earnings (loss) per share	Basic earnings (loss) per share amounts are calculated by dividing the net profit (loss) for the year by the weighted average number of ordinary shares outstanding during the year. Diluted earnings (loss) per share amounts are calculated by dividing the net profit (loss) for the year by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.
EBIT	Earnings before interest and tax.
EBITDA	Earnings before interest, tax, depreciation and amortisation.
EBITDA margin	EBITDA divided by total revenue.
EBITDAR	Revenue less cost of revenues (operating expenses). EBITDAR, together with EBITDA, is used as a key management indicator.
EPRA earnings	Shareholders' earnings from operational activities adjusted to remove changes in fair value of financial instruments and reported depreciation.
EPRA earnings per share	EPRA earnings divided by the weighted average number of ordinary shares outstanding during the year.
EPRA Net asset value (EPRA NAV)	Recognised equity, attributable to the parent company's shareholders, including reversal of derivatives, deferred tax asset for derivatives, deferred tax liabilities related to the properties and revaluation of operating properties.
EPRA Net Re-instatement Value (EPRA NRV)	Recognised equity, attributable to the parent company's shareholders on a fully diluted basis adjusted to include properties and other investment interests at fair value and to exclude certain items not expected to crystallise in a long-term investment property business model.
EPRA Net Re-instatement Value (EPRA NRV) per share	EPRA NRV divided by the fully diluted number of shares at the end of the period.
EPRA Net Disposal Value (EPRA NDV)	Recognised equity, attributable to the parent company's shareholders on a fully diluted basis adjusted to include properties, other investment interests, deferred tax, financial instruments and fixed interest rate debt at disposal value.
EPRA Net Tangible Assets (EPRA NTA)	Recognised equity, attributable to the parent company's shareholders on a fully diluted basis adjusted to include properties and other investment interests at fair value and to exclude intangible assets and certain items not expected to crystallise based on the Company's expectations for investment property disposals in the future.
EPRA Net Tangible Assets (EPRA NTA) per share	EPRA NTA divided by the fully diluted number of shares at the end of the period.
Gearing ratio	Net bank debt divided by the sum of total equity and net bank debt.
Interest Cover ratio (ICR)	EBITDA, less net expenses for financial liability in respect of Income Units sold to private investors and lease payments, divided by interest on bank loans.
Loan-to-value ratio	Interest-bearing liabilities after deducting cash and cash equivalents as a percentage of the properties' market value at the end of the period.
Market capitalisation	The value attributed to a listed Company by multiplying its share price by the number of shares in issue.
Market share	The amount of total sales of an item or group of products by a company in a particular market. It is often shown as a percentage, and is a good indicator of performance compared to competitors in the same market sector.
Net debt	Borrowings less cash and cash equivalents long-term and short-term restricted cash, including the exchange element of the fair value of currency swaps hedging the borrowings.
Normalised profit before tax	Profit before tax adjusted to remove unusual or onetime influences.
Occupancy	Total occupied rooms divided by net available rooms or RevPAR divided by ARR.
RevPAR	Revenue per available room. Total rooms revenue divided by net available rooms or ARR x occupancy %.

Contacts

Directors

Eli Papouchado	(Non-Executive Chairman)
Yoav Papouchado	(Alternate Director)
Boris Ivesha	(President & Chief Executive Officer)
Daniel Kos	(Chief Financial Officer & Executive Director)
Kevin McAuliffe	(Non-Executive Deputy Chairman)
Nigel Keen	(Non-Executive Director & Senior Independent Director)
Kenneth Bradley	(Non-Executive Director)
Stephanie Coxon	(Non-Executive Director)

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25 Charterhouse Square
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Useful links
Company websites
pphe.com
arenahospitalitygroup.com

For reservations
parkplaza.com
artotel.com
arenahotels.com
arenacampsites.com

Strategic partner
radissonhotelgroup.com

Forward-looking statements
This document may contain certain "forward-looking statements" which reflect the Company's and/or the Directors' current views with respect to financial performance, business strategy and future plans, both with respect to the Group and the sectors and industries in which the Group operates. Statements which include the words "expects", "intends", "plans", "believes", "projects", "anticipates", "will", "targets", "aims", "may", "would", "could", "continue" and similar statements are of a future or forward-looking nature. All forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause the Group's actual results to differ materially from those indicated in these statements. Any forward-looking statements in this document reflect the Group's current views with respect to future events and are subject to risks, uncertainties and assumptions relating to the Group's operations, results of operations and growth strategy. These forward-looking statements speak only as of the date on which they are made. Subject to any legal or regulatory obligations, the Company undertakes no obligation publicly to update or review or revise any forward-looking statement, whether as a result of new information, future developments or otherwise. All subsequent written and oral forward-looking statements attributable to the Group or individuals acting on behalf of the Group are expressly qualified in their entirety by this paragraph. Nothing in this document should be considered as a profit forecast.

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