

**REGISTERED NUMBER: 00879456 (England and Wales)**

**Adda Hotels**

**STRATEGIC REPORT, REPORT OF THE DIRECTORS AND  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**



**Adda Hotels (Registered number: 00879456)**

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for the year ended 31 December 2018**

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**COMPANY INFORMATION**  
for the year ended 31 December 2018

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**DIRECTORS:**

Mr J Percival  
Hilton UK Corporate Director Limited  
Mr S Beasley  
Mr B Wilson  
Mr R Beeston  
Mr S Cassidy  
Mrs M Momdjian  
Mr G C Ogle

**SECRETARY:**

HLT Secretary Limited

**REGISTERED OFFICE:**

Maple Court  
Central Park  
Reeds Crescent  
Watford  
Hertfordshire  
WD24 4QQ

**REGISTERED NUMBER:**

00879456 (England and Wales)

**AUDITORS:**

Ernst & Young LLP  
Senior Statutory Auditor  
1 More London Place  
London  
SE1 2AF

**STRATEGIC REPORT**  
**for the year ended 31 December 2018**

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

The principal activity of the company in the year under review was to operate twelve hotels under operating leases and manage two hotels under management contracts.

**REVIEW OF BUSINESS**

The company's key financial indicators of performance during the year are considered to be:

	2018	2017
	£	£
Turnover	138,814,563	134,087,887
Gross loss	(18,895,141)	(5,599,644)
Occupancy	80%	80%

Turnover has remained comparable with the prior year due to no additions or disposals within the company's portfolio of leased and managed hotels in both years. The gross loss is impacted by the impairment of fixed assets of £21,466,527 (2017: £9,045,422) due to the forecast under performance of certain hotels operated by the company.

**PRINCIPAL RISKS AND UNCERTAINTIES**

**Competitive risk**

This company operates in a number of locations around the UK. Risks that arise come from competitors opening new hotels or improving an existing hotel. The company monitors its competitors' performance and participates in regular benchmarking to understand the company's position compared to its competitors.

**Economic risk**

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

**Interest rate risk**

This company is subject to interest rate risk on intercompany loans where the interest rate is linked to LIBOR. The company's treasury department monitors interest rates.

Management does not believe the company is any more exposed to financial statement risk factors than others in the industry and has a system of internal controls and procedures that attempt to mitigate such risk.

**Adda Hotels (Registered number: 00879456)**

**STRATEGIC REPORT**  
**for the year ended 31 December 2018**

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**FUTURE DEVELOPMENTS**

The company will continue to operate and manage hotels under lease and management contracts in the future with a view to optimising returns.

**ON BEHALF OF THE BOARD:**

A handwritten signature in black ink, consisting of a large, stylized 'R' followed by a horizontal line and a small flourish.

Mr R Beeston - Director

16 July 2019

**REPORT OF THE DIRECTORS**  
**for the year ended 31 December 2018**

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The directors present their report with the financial statements of the company for the year ended 31 December 2018.

**DIVIDENDS**

No dividends will be distributed for the year ended 31 December 2018.

**DIRECTORS**

The directors shown below have held office during the whole of the period from 1 January 2018 to the date of this report.

Mr J Percival  
Hilton UK Corporate Director Limited  
Mr S Beasley  
Mr B Wilson

Other changes in directors holding office are as follows:

Mr O Lifschitz - resigned 22 August 2018  
Mr J Tynan - resigned 1 October 2018  
Mr C Heath - resigned 31 December 2018  
Mr R Beeston - appointed 6 February 2018  
Mr S Cassidy - appointed 22 August 2018  
Mrs M Momdjian - appointed 19 November 2018  
Mr G C Ogle - appointed 19 November 2018

**GOING CONCERN**

The company's activities, together with the factors likely to affect its future development, its competitive, economic and interest rate risks are set out in the 'Review of Business' and 'Principal Risks and Uncertainties' section in the Strategic Report. The financial statements have been prepared under the going concern basis because the company's ultimate parent, Hilton Worldwide Holdings Inc. has provided a letter of support stating it will provide financial support, should it be needed, to enable the company to meet its debts as they fall due.

**DIRECTORS' AND OFFICERS' LIABILITY**

During the year Hilton Worldwide Holdings Inc. purchased and maintained on behalf of the company liability insurance for its directors and officers, in respect of proceedings brought by third parties, as permitted by section 236 of the Companies Act 2006.

**REPORT OF THE DIRECTORS  
for the year ended 31 December 2018**

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**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The directors are responsible for preparing the Strategic Report, the Report of the Directors and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. law), including Financial Reporting Standard 101 'Reduced Disclosure Framework'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

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

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

**STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS**

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he/she is obliged to take as a director to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

**AUDITORS**

In accordance with section 485 of the Companies Act 2006, a resolution is proposed at the Annual General Meeting for reappointment of Ernst & Young LLP as auditor of the company.

**ON BEHALF OF THE BOARD:**



Mr R Beeston - Director

16 July 2019

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ADDA HOTELS**

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### **Opinion**

We have audited the financial statements of Adda Hotels (the 'company') for the year ended 31 December 2018 which comprise the Statement of Profit or Loss and Other Comprehensive Income, Balance Sheet, Statement of Changes in Equity and Notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Conclusions relating to going concern**

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

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

### **Other information**

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

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

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

We have nothing to report in this regard.

### **Opinions on other matters prescribed by the Companies Act 2006**

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

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



## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ADDA HOTELS

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### Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Report of the Directors.

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

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

### Responsibilities of directors

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

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

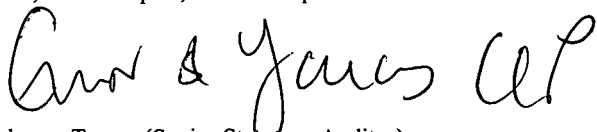
### Auditors' responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our Auditors' Report.

### Use of our report

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



Rebecca Turner (Senior Statutory Auditor)  
for and on behalf of Ernst & Young LLP  
Senior Statutory Auditor  
1 More London Place  
London  
SE1 2AF

16 July 2019

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
for the year ended 31 December 2018

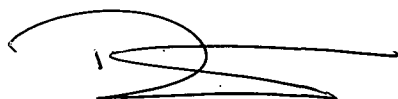
	Notes	2018 £	2017 £
<b>TURNOVER</b>	4	138,814,563	134,087,887
Cost of sales		(157,709,704)	(139,687,531)
<b>GROSS LOSS</b>		(18,895,141)	(5,599,644)
Other operating items		(99,596,000)	(7,828,234)
Administrative expenses		(9,471,531)	(9,090,082)
<b>OPERATING LOSS</b>		(127,962,672)	(22,517,960)
Profit/(loss) on disposal of intangible fixed assets	6	-	(316)
Profit/(loss) on disposal of tangible fixed assets	6	(2,338)	(16,499)
		(127,965,010)	(22,534,775)
Income from shares in group undertakings		-	313
Interest receivable	7	2,870,946	1,073,192
Interest payable and similar expenses	8	(4,074,892)	(2,992,347)
<b>LOSS BEFORE TAXATION</b>	9	(129,168,956)	(24,453,617)
Tax on loss	10	-	-
<b>LOSS FOR THE FINANCIAL YEAR</b>		(129,168,956)	(24,453,617)
<b>OTHER COMPREHENSIVE INCOME</b>		-	-
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>		(129,168,956)	(24,453,617)

The notes form part of these financial statements

**BALANCE SHEET**  
**31 December 2018**

	Notes	2018 £	2017 £
<b>FIXED ASSETS</b>			
Intangible assets	11	78,581	57,088
Tangible assets	12	29,007,022	48,556,020
Investments	13	201	908
		<u>29,085,804</u>	<u>48,614,016</u>
<b>CURRENT ASSETS</b>			
Stocks	14	225,794	230,043
Debtors	15	177,123,643	177,993,990
Cash in hand		616,703	75,685
		<u>177,966,140</u>	<u>178,299,718</u>
<b>CREDITORS</b>			
Amounts falling due within one year	16	(309,679,773)	(299,853,755)
<b>NET CURRENT LIABILITIES</b>		<u>(131,713,633)</u>	<u>(121,554,037)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		(102,627,829)	(72,940,021)
<b>CREDITORS</b>			
Amounts falling due after more than one year	17	(316,001)	(430,853)
<b>PROVISIONS FOR LIABILITIES</b>	20	(99,596,000)	-
<b>NET LIABILITIES</b>		<u>(202,539,830)</u>	<u>(73,370,874)</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	21	110,005,500	110,005,500
Retained earnings	22	(312,545,330)	(183,376,374)
<b>SHAREHOLDER FUNDS</b>		<u>(202,539,830)</u>	<u>(73,370,874)</u>

The financial statements were approved by the Board of Directors on 16 July 2019 and were signed on its behalf by:



Mr R Beeston - Director

The notes form part of these financial statements

**Adda Hotels (Registered number: 00879456)**

**STATEMENT OF CHANGES IN EQUITY**  
**for the year ended 31 December 2018**

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	Called up share capital £	Retained earnings £	Total equity £
<b>Balance at 1 January 2017</b>	110,005,500	(158,922,757)	(48,917,257)
<b>Changes in equity</b>			
Total comprehensive loss	-	(24,453,617)	(24,453,617)
<b>Balance at 31 December 2017</b>	<u>110,005,500</u>	<u>(183,376,374)</u>	<u>(73,370,874)</u>
<b>Changes in equity</b>			
Total comprehensive loss	-	(129,168,956)	(129,168,956)
<b>Balance at 31 December 2018</b>	<u><u>110,005,500</u></u>	<u><u>(312,545,330)</u></u>	<u><u>(202,539,830)</u></u>

The notes form part of these financial statements

**NOTES TO THE FINANCIAL STATEMENTS**  
**for the year ended 31 December 2018**

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**1. FUNDAMENTAL ACCOUNTING CONCEPT**

Adda Hotels is incorporated and domiciled in England and Wales.

The financial statements have been prepared under the going concern basis because the company's ultimate parent, Hilton Worldwide Holdings Inc., has provided a letter agreeing to give financial support to enable the company to meet its debts as they fall due.

**2. STATUTORY INFORMATION**

Adda Hotels is a private company, limited by shares, registered in England and Wales. The company's registered number and registered office address can be found on the Company Information page.

**3. ACCOUNTING POLICIES**

**Basis of preparation**

These financial statements have been prepared in accordance with Financial Reporting Standard 101 "Reduced Disclosure Framework" and the Companies Act 2006. The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain assets.

The company's financial statements are presented in Sterling, which is the company's functional currency. Amounts have been rounded to the nearest £.

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS 101 "Reduced Disclosure Framework":

- the requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 Share-based Payment;
- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91 to 99 of IFRS 13 Fair Value Measurement;
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers;
- the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
  - paragraph 73(e) of IAS 16 Property, Plant and Equipment; and
  - paragraph 118(e) of IAS 38 Intangible Assets;
- the requirements of paragraphs 10(d), 16 and 111 of IAS 1 Presentation of Financial Statements;
- the requirements of paragraphs 134 to 136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraphs 17 of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group;
- the requirements of paragraphs 130(f), 134(d to f) and 135(c to e) of IAS 36 Impairments of Assets.

**NOTES TO THE FINANCIAL STATEMENTS - continued**  
**for the year ended 31 December 2018**

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**3. ACCOUNTING POLICIES - continued**

**Critical accounting judgements and key sources of estimation uncertainty**

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

**Critical judgements**

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements:

**Taxation**

Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. Further details are contained in the note "Taxation".

**Onerous contracts**

An onerous contract is a contract under which the unavoidable costs (i.e., the costs that the company cannot avoid because it has the contract) of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

If the company has a contract that is onerous, the present obligation under the contract is recognised and measured as a provision. However, before a separate provision for an onerous contract is established, the company recognises any impairment loss that has occurred on assets dedicated to that contract.

**Operating lease commitments**

The Company has entered into commercial property leases as a lessee. The classification of such leases as operating or finance lease requires the Company to determine, based on an evaluation of the terms and conditions of the arrangements, whether it acquires the significant risks and rewards of ownership of these assets and accordingly whether the lease requires an asset and liability to be recognised in the balance sheet. All leases are classified as operating leases.

**Key sources of estimation uncertainty**

The following are the key assumptions concerning the future, and other sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of resulting in a material adjustment to the carrying amounts of assets within the next financial year.

**Impairment of fixed assets**

Determining whether fixed assets are impaired requires an estimation of the value in use of the cash generating unit. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate present value. Each hotel is one cash generating unit.

Details of any impairment loss are set out in the note "Tangible Fixed Assets".

**NOTES TO THE FINANCIAL STATEMENTS - continued**  
**for the year ended 31 December 2018**

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**3. ACCOUNTING POLICIES - continued**

**Changes in accounting policies**

IFRS 15 Revenue from contracts with customers, provides a single, five step revenue recognition model, applicable to all sales contracts, which is based on the principal revenue is recognised when control of goods or services are passed to the customer. IFRS 15 was adopted by the company with effect from 1 January 2018. The company applied the full retrospective restatement approach to the comparative year ended 31 December 2017 in the financial statements for the year ended 31 December 2018 however there was no impact on the financial statements at 31 December 2017 as previously presented.

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

**Revenue recognition**

**Turnover**

Turnover derived from hotel operations arose wholly in the United Kingdom. Turnover is recognised when services have been rendered. The turnover of the hotels is derived primarily from the rental of rooms, conference and banqueting, food and beverage sales. Turnover is all rendering of goods and services. Turnover is measured at the fair value of the consideration received, excluding discounts, rebates, value added tax and other sales taxes.

Turnover derived from management fees, which arose wholly in the United Kingdom, is earned by the company usually 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 generally based on the hotel's profitability or cash flows. Turnover is recognised when earned and realised or realisable under the terms of the contract. Turnover is measured at the fair value of the consideration received, excluding discounts, rebates, value added tax and other sales taxes.

**Interest income**

Interest is recognised as it accrues using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to its net carrying amount.

**Intangible assets**

Computer software is stated at cost less accumulated amortisation and accumulated impairment. Cost comprises the aggregate amount paid to acquire the asset and includes any costs directly attributable to preparing the asset for its intended use.

Amortisation is provided on computer software on a straight-line basis over its expected useful life of three years.

The carrying values of computer software are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable, and are written down immediately to their recoverable amount. The amortisation period and the amortisation method are reviewed at least at each financial year end. Changes in the expected useful life are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

An intangible asset is derecognised upon disposal or when no future economic benefits are expected to rise from its continued use. Gains or losses are included in the Statement of Profit or Loss and Other Comprehensive Income in the period of derecognition.

**NOTES TO THE FINANCIAL STATEMENTS - continued**  
**for the year ended 31 December 2018**

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**3. ACCOUNTING POLICIES - continued**

**Tangible fixed assets**

Leasehold improvements, fixtures, fittings and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost comprises the aggregate amount paid to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended.

Depreciation is provided on all leasehold improvements, fixtures, fittings and equipment, on a straight-line basis over its expected useful life as follows:

- Leasehold improvements - lower of 50 years or the lease term
- Fixtures, fittings and equipment - between 7.5% and 33.3% per annum

The carrying values of leasehold improvements, fixtures, fittings and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable, and are written down immediately to their recoverable amount. The depreciation period and the depreciation method are reviewed at least at each financial year end. Changes in the expected useful life is accounted for by changing the depreciation period or method, as appropriate, and are treated as changes in accounting estimates.

An item of leasehold improvement, fixtures, fittings and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the derecognition of the asset is included in the Statement of Profit or Loss and Other Comprehensive Income in the period of derecognition.



**NOTES TO THE FINANCIAL STATEMENTS - continued**  
**for the year ended 31 December 2018**

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**3. ACCOUNTING POLICIES - continued**

**Financial instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

**Financial assets**

**Initial recognition and measurement**

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through the Statement of Profit or Loss and Other Comprehensive Income. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the company has applied the practical expedient, the company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through the Statement of Profit or Loss and Other Comprehensive Income, transaction costs.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in the Statement of Profit or Loss and Other Comprehensive Income when the asset is derecognised, modified or impaired.

**Subsequent measurement**

The company 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 to hold 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 solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in the Statement of Profit or Loss and Other Comprehensive Income when the asset is derecognised, modified or impaired.

**Derecognition**

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

- The rights to receive cash flows from the asset have expired, or
- The company 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 company has transferred substantially all the risks and rewards of the asset, or (b) the company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the company 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 company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the company 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 company 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 company could be required to repay.

**NOTES TO THE FINANCIAL STATEMENTS - continued**  
**for the year ended 31 December 2018**

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**3. ACCOUNTING POLICIES - continued**

**Impairment of financial assets**

The company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through the Statement of Profit or Loss and Other Comprehensive Income. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the company expects to receive, discounted at an approximation of the original effective interest rate. For trade receivables and some intercompany loans, the company applies a simplified approach in calculating ECLs. Therefore, the company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the company may also consider a financial asset to be in default when internal or external information indicates that the company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

**Financial liabilities**

**Initial recognition and measurement**

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through the Statement of Profit or Loss and Other Comprehensive Income, loans and borrowings, or payables 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.

**Subsequent measurement - Intercompany loans**

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the Statement of Profit or Loss and Other Comprehensive Income 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 finance costs in the Statement of Profit or Loss and Other Comprehensive Income.

**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 Statement of Profit or Loss and Other Comprehensive Income.

**Stocks**

Stocks are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition. These costs incurred are accounted for using a first-in, first-out basis.

**NOTES TO THE FINANCIAL STATEMENTS - continued**  
**for the year ended 31 December 2018**

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**3. ACCOUNTING POLICIES - continued**

**Taxation**

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred tax assets and liabilities are recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- the initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction which:
  - (i) is not a business combination; and
  - (ii) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).
- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date. Deferred income tax assets and liabilities are offset, only if a legally enforceable right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the company to make a single net payment.

Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity. Otherwise income tax is recognised in profit or loss.

**Leases**

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

Leases where the lessor retains a significant portion of the risks and benefits of ownership of the asset are classified as operating leases. Rentals payable, including contingent rent as determined by reference to the turnover or profit of the hotel, are charged in the Statement of Profit or Loss and Other Comprehensive Income on a straight line basis over the lease term.

Assets held under finance leases, which transfer to the company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease, with a corresponding liability being recognised for the lower of the fair value of the leased asset and the present value of the minimum lease payments.

**Employee benefit costs**

The company operates a defined contribution pension scheme. Contributions payable to the company's pension scheme are charged to the Statement of Profit or Loss and Other Comprehensive Income in the period to which they relate.

**NOTES TO THE FINANCIAL STATEMENTS - continued**  
for the year ended 31 December 2018

**3. ACCOUNTING POLICIES - continued**

**Share based payments**

The cost of cash-settled transactions is measured initially at fair value at the grant date. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date up to and including the settlement date, with changes in fair value recognised in the Statement of Profit or Loss and Other Comprehensive Income for the period.

**4. TURNOVER**

The turnover and loss before taxation are attributable to the one principal activity of the company.

**5. EMPLOYEES AND DIRECTORS**

All operations of the company during the year ended 31 December 2018 have been undertaken by employees of other companies within Hilton Worldwide Holdings Inc.. A charge of £29,159,050 has been included in the financial statements in cost of sales in respect of their services (2017: £27, 651,098).

A total expense of £327,953 (2017: £211,086) has been recognised in the Statement of Profit or Loss and Other Comprehensive Income which relates to contributions to the defined contribution plan.

All the directors of the company are also directors of other group companies. The directors received total remuneration for the year of £1.7m (2017: £1.6m) all of which was paid by other companies within the group. The directors do not believe that it is practicable to apportion this amount between their services as directors of the company and their services as directors of the other group companies.

**6. PROFIT/(LOSS) ON DISPOSAL**

	2018 £	2017 £
Profit/(loss) on disposal of tangible fixed assets	(2,338)	(16,499)
Profit/(loss) on disposal of intangible assets	-	(316)
	<u>          </u>	<u>          </u>

**7. INTEREST RECEIVABLE**

	2018 £	2017 £
Interest receivable from fellow group undertakings	2,870,946	1,073,192
	<u>          </u>	<u>          </u>

**8. INTEREST PAYABLE AND SIMILAR EXPENSES**

	2018 £	2017 £
Interest payable to fellow group undertakings	4,051,404	2,983,533
Finance lease interest	23,488	8,814
	<u>          </u>	<u>          </u>
	4,074,892	2,992,347
	<u>          </u>	<u>          </u>

**NOTES TO THE FINANCIAL STATEMENTS - continued**  
for the year ended 31 December 2018

**9. LOSS BEFORE TAXATION**

This is stated after charging:

	2018	2017
	£	£
Management charge payable to group undertakings	4,312,288	4,284,706
Fees payable to fellow group undertakings	4,271,755	4,169,552
Depreciation of tangible fixed assets	3,985,217	3,795,767
Amortisation of intangible fixed assets	50,023	25,457
Operating lease rentals - property	40,424,485	38,898,501
Operating lease rentals - property contingent rent	6,277,825	6,036,936
Operating lease rentals - other	417,611	459,273
Impairment charge on tangible fixed assets	21,466,527	9,045,422
Impairment losses on intangible fixed assets	203,235	45,019

Other operating items consist of:

Impairment losses on investments	-	7,828,234
Onerous lease expense	99,596,000	-

The remuneration of the auditors of £ 33,552 (2017: £31,604) is borne entirely by Hilton Worldwide Limited.

**NOTES TO THE FINANCIAL STATEMENTS - continued**  
for the year ended 31 December 2018

**10. TAXATION**

**Factors affecting the tax (credit)/charge**

The tax assessed for the year is higher than the standard rate of corporation tax in the UK. The difference is explained below:

	2018 £	2017 £
Profit/(Loss) on ordinary activities before tax	(129,168,956)	(24,453,617)
Profit/(Loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19% (2017 - 19.247%)	(24,542,102)	(24,453,617)
Effects of:		
Expenses not deductible for tax purposes	925,252	1,517,802
Depreciation on non qualifying assets	188,775	210,411
Group relief surrendered to/(from) fellow subsidiary companies free of charge	8,594,943	3,773,246
Temporary differences subject to the initial recognition exception	-	(655,198)
Utilisation of deferred tax assets not previously recognised	-	(139,734)
Non-taxable non-UK profits	-	61
Deferred tax asset not recognised	14,833,132	-
Total tax charge	-	-

At 31 December 2018 the company had temporary differences amounting to £99,020,825 (2017: £21,590,835). No deferred tax asset has been recognised as there is not currently sufficient certainty that future taxable profits will be generated by the company to recognise the asset against.

The enacted main rate of corporation tax was reduced from 20% to 19% from 1 April 2017 and 17% from 1 April 2020. These changes do not have a material effect on these financial statements.

The Group's future tax charge could be affected by numerous factors including, but not limited to, the UK's triggering of Article 50 and any future consequences of the UK leaving the European Union, the UK's proposal to amend the tax rules relating to the utilisation of brought forward losses and any tax reforms adopted from the OECD's BEPS actions such as those in relation to the deductibility of interest, anti-avoidance or transfer pricing. No quantification of these changes is currently possible due to uncertainty around when any currently proposed rules will be enacted or effective.

**NOTES TO THE FINANCIAL STATEMENTS - continued**  
for the year ended 31 December 2018

**11. INTANGIBLE FIXED ASSETS**

	Computer software £
<b>COST</b>	
At 1 January 2018	557,725
Additions	277,089
Disposals	(32,996)
At 31 December 2018	<u>801,818</u>
<b>AMORTISATION</b>	
At 1 January 2018	500,637
Amortisation for year	50,023
Eliminated on disposal	(30,658)
Impairments	203,235
At 31 December 2018	<u>723,237</u>
<b>NET BOOK VALUE</b>	
At 31 December 2018	<u>78,581</u>
At 31 December 2017	<u>57,088</u>

The amounts written off intangible fixed assets comprise impairment of 9 hotels' software. The impairment charge has been recognised as the hotels are historically loss making and are forecasted to make a loss in the coming year.

The impairment charge has been measured by reference to the value in use of the cash generating units, using a discount rate of 10%. The resulting impairment charge for the year has been expensed under cost of sales within the statement of the Statement of Profit or Loss and Other Comprehensive Income.

**NOTES TO THE FINANCIAL STATEMENTS - continued**  
for the year ended 31 December 2018

**12. TANGIBLE FIXED ASSETS**

	Leasehold improvements £	Fixtures, fittings and equipment £	Totals £
<b>COST</b>			
At 1 January 2018	149,412,993	64,745,962	214,158,955
Additions	3,193,243	2,708,828	5,902,071
Disposals	(337,982)	(2,197,986)	(2,535,968)
Transfer	690	-	690
At 31 December 2018	152,268,944	65,256,804	217,525,748
<b>DEPRECIATION</b>			
At 1 January 2018	110,528,788	55,074,147	165,602,935
Charge for year	2,079,308	1,905,908	3,985,216
Eliminated on disposal	(337,983)	(2,197,986)	(2,535,969)
Impairments	17,881,507	3,585,021	21,466,528
Transfer	16	-	16
At 31 December 2018	130,151,636	58,367,090	188,518,726
<b>NET BOOK VALUE</b>			
At 31 December 2018	22,117,308	6,889,714	29,007,022
At 31 December 2017	38,884,205	9,671,815	48,556,020

The amounts written off tangible fixed assets comprise impairment of 9 hotels' fixed assets. The impairment charge has been recognised as the hotels are historically loss-making and are forecasted to make a loss in the coming year. The impairment charge has been measured by reference to the value in use of the income generating units, using a discount rate of 10%.

Transfers represent transfers of fixed assets made in and out of the entity during the period to other entities in the group.

The net book value of tangible fixed assets includes £113,258 (2017 - £191,844) in respect of assets held under finance leases.



**NOTES TO THE FINANCIAL STATEMENTS - continued**  
**for the year ended 31 December 2018**

**13. INVESTMENTS**

	Shares in group undertakings £
<b>COST</b>	
At 1 January 2018	7,829,142
Disposals	(6,408,025)
At 31 December 2018	1,421,117
<b>PROVISIONS</b>	
At 1 January 2018	7,828,234
Reversal of impairments	(6,407,318)
At 31 December 2018	1,420,916
<b>NET BOOK VALUE</b>	
At 31 December 2018	201
At 31 December 2017	908

The disposals relate to the liquidation of 7 subsidiaries during the year.

Details of the investments in which the company holds nominal value of any class of share capital are as follows:

Investments in directly held subsidiary undertakings are denoted below with an asterisk; all other investments in subsidiary undertakings are indirectly held.

	Country of registration and operation	Principal activities	Proportion of voting rights and shares held
UK Leasing Nottingham Limited*	England	Dormant	100%
UK Leasing Watford Limited*	England	Dormant	100%

Consolidated financial statements have not been prepared as the company is consolidated into the financial statements of a larger group, for which the consolidated financial statements are publicly available, as disclosed in the below note "Parent undertaking, controlling party and consolidating entity".

In the opinion of the directors the aggregate value of the investment in subsidiary undertakings is not less than the amounts at which they are stated in these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS - continued**  
for the year ended 31 December 2018

**14. STOCKS**

	2018	2017
	£	£
Goods for resale	225,794	230,043

The directors estimate that the replacement cost of stocks is not materially different from their book value amounts.

**15. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	2018	2017
	£	£
Trade debtors	4,813,449	4,148,826
Amounts owed by group undertakings	164,410,621	161,521,854
Other debtors	60,069	75,708
Prepayments and accrued income	7,839,504	12,247,602
	<u>177,123,643</u>	<u>177,993,990</u>

Amounts owed by group undertakings are included in amounts due within one year where there are no specified repayment terms. Amounts owed by group undertakings are technically repayable on demand and hence are included in amounts due within one year. The loans bear interest at a rate linked to LIBOR plus a margin.

**16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	2018	2017
	£	£
Finance leases (see note 18)	192,711	197,588
Trade creditors	1,851,982	1,156,328
Amounts owed to group undertakings	288,889,643	282,405,528
Social security and other taxes	5,749,860	3,008,383
Other creditors	1,562,597	725,639
Accruals and deferred income	11,432,980	12,360,289
	<u>309,679,773</u>	<u>299,853,755</u>

Amounts owed to group undertakings are included in amounts due within one year where there are no specified repayment terms and there is no fixed repayment schedule in place. While amounts owed to group undertakings are technically repayable on demand, and hence are included in amounts due within one year, the directors are of the opinion (as a result of their group role in relation to the group undertakings amounts are owed to) that in the ordinary course of business, repayment within such a timescale would not be required. The loans bear interest at LIBOR plus a margin.

**17. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

	2018	2017
	£	£
Finance leases (see note 18)	316,001	430,853

**NOTES TO THE FINANCIAL STATEMENTS - continued**  
for the year ended 31 December 2018

**18. FINANCIAL LIABILITIES - BORROWINGS**

	2018 £	2017 £		
Current:				
Finance leases (see note 19)	<u>192,711</u>	<u>197,588</u>		
Non-current:				
Finance leases (see note 19)	<u>316,001</u>	<u>430,853</u>		
Terms and debt repayment schedule				
	1 year or less £	1-2 years £	2-5 years £	Totals £
Finance leases	<u>192,711</u>	<u>182,243</u>	<u>133,758</u>	<u>508,712</u>

**19. LEASING AGREEMENTS**

Minimum lease payments under finance leases fall due as follows:

	Finance leases	
	2018 £	2017 £
Gross obligations repayable:		
Within one year	209,925	219,000
Between one and five years	<u>328,053</u>	<u>456,381</u>
	<u>537,978</u>	<u>675,381</u>
Finance charges repayable:		
Within one year	17,214	21,412
Between one and five years	<u>12,052</u>	<u>25,528</u>
	<u>29,266</u>	<u>46,940</u>
Net obligations repayable:		
Within one year	192,711	197,588
Between one and five years	<u>316,001</u>	<u>430,853</u>
	<u>508,712</u>	<u>628,441</u>

**NOTES TO THE FINANCIAL STATEMENTS - continued**  
for the year ended 31 December 2018

**20. PROVISIONS FOR LIABILITIES**

	2018 £	2017 £
Other provisions		
Onerous lease provision	99,596,000	-
		Onerous lease provisions £
Provided during year		99,596,000
Balance at 31 December 2018		99,596,000

A provision has been recognised in the year to reflect the difference between the unavoidable costs of fulfilling the lease obligation over the term of the lease in excess of the economic benefits expected to be received from the lease. In order to determine the provision the expected cash flows have been discounted using an appropriate rate. The provision relates to the lease of seven of the company's hotels and reflects certain cost savings that were expected in the past as a result of various operational and organisational changes but which are no longer anticipated.

**21. CALLED UP SHARE CAPITAL**

Allotted, issued and fully paid:

Number:	Class:	Nominal value:	2018 £	2017 £
110,000,500	Ordinary shares	£1	110,000,500	110,000,500
5,000	Deferred shares	£1	5,000	5,000
			110,005,500	110,005,500

The deferred shares carry no rights to participate in the company's profits. On liquidation or otherwise, the surplus assets shall be applied first in repaying to the holders of ordinary shares £1,000 per share, and secondly repaying to the holders of the deferred shares the amount paid up on such shares; the balance of the surplus assets shall be distributed to the holders of the ordinary shares in proportion to the amounts paid up thereon. As regards voting on a show of hands, the holders of each class of share shall rank pari passu, and on a poll, each ordinary share shall carry 1,000 votes and each deferred share one vote.

**22. RESERVES**

	Retained earnings £
At 1 January 2018	(183,376,374)
Deficit for the year	(129,168,956)
At 31 December 2018	(312,545,330)

**NOTES TO THE FINANCIAL STATEMENTS - continued**  
**for the year ended 31 December 2018**

**23. OTHER FINANCIAL COMMITMENTS**

Lease commitments

Future minimum rentals payable under non-cancellable operating leases are as follows:

	2018 £	2017 £
Plant and equipment		
Within one year	460,842	431,452
Within two to five years	69,130	12,132
	<u>529,972</u>	<u>443,584</u>
	2018 £	2017 £
Property		
Within one year	41,567,822	39,761,876
Within two to five years	166,271,286	159,047,506
After five years	393,497,466	416,925,181
	<u>601,336,574</u>	<u>615,734,563</u>

Certain property operating leases include a contingent rent clause. Contingent rent is determined with reference to the turnover or profit of the hotel. Contingent rent and options for renewal are not included in the commitments shown in the table above but to the extent contingent rent has been incurred in the year it is shown in the Statement of Profit or Loss and Other Comprehensive Income disclosure.

**24. SHARE-BASED PAYMENT TRANSACTIONS**

Under a long term incentive scheme Hilton Worldwide Holdings Inc. grants restricted stock units (RSU) to the general managers and hotel managers that entitle them to a compulsory cash payment. These annual grants vest within a one year period from the grant date and participants are required to be employed with the company on the vesting date. The amount of the cash payment is determined based on the share price of Hilton Worldwide Holdings Inc..

**25. PARENT UNDERTAKING, CONTROLLING PARTY AND CONSOLIDATING ENTITY**

The company's immediate parent undertaking is Hilton Worldwide Limited , a hotel operator registered in England.

The ultimate parent the only undertaking for which group financial statements were prepared and into which the company is consolidated for 31 December 2018, was Hilton Worldwide Holdings Inc., a Delaware company incorporated in the United States of America. These group financial statements are available from the company secretary, Hilton Worldwide Holdings Inc., 7930 Jones Branch Drive, McLean, Fairfax County, Virginia VA 22102-3302, United States of America .

**NOTES TO THE FINANCIAL STATEMENTS - continued**  
**for the year ended 31 December 2018**

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**26. CAPITAL COMMITMENTS**

The company has not entered into any capital commitments contracted for but not provided in the financial statements at period end.

**27. CONTINGENT LIABILITIES**

The company had jointly and severally guaranteed the value added tax liability of other companies within the same UK VAT group, which amounted to approximately £7.9m (2017: £6.7m) at 31 December 2018.