Company Registration No. 4216938

Lagonda Selsdon Propco Limited

Annual Report and Financial Statements

31 December 2019

Lagonda Selsdon Propco Limited

Annual report and financial statements 2019

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Report and financial statements 2019

Officers and professional advisers

Directors

A G Troy
J A Burrell

Registered office

The Inspire
Hornbeam Square West
Harrogate
North Yorkshire
HG2 8PA

Auditor

Deloitte LLP
Statutory Auditor
London
United Kingdom

Lagonda Selsdon Propco Limited

Strategic Report

Principal Activities of the Company

The principal activity of the Company is the ownership of the long leasehold interest in the De Vere Selsdon Estate hotel. This is leased to the immediate parent company De Vere Selsdon Estate Limited. The Company is a member of the UK Group of Companies headed by Principal Hotels Topco 1 Limited ("the Group").

Company Business Review

2019 Business Review

The Company's trading results for the year are set out in the profit and loss account. The directors use the profit or loss before tax to assess the performance of the business.

In preparing these financial statements the Company has adopted IFRS 16 *Leases* using the cumulative catch up approach which has had a significant impact on the classification of the Company's assets and liabilities reported in the Balance Sheet. Full details of the change are set out on note 2 to the financial statements.

2020 Post Balance Sheet Events and Future Developments

The COVID-19 pandemic has not directly impacted the Company's ongoing activities which are expected to continue at a similar level to 2019. The Group's operations have been materially impacted by the pandemic but, as set out below in the "Going Concern basis of accounts preparation" section of this report, the Group has secured shareholder and bank support in order to continue trading for the foreseeable future.

Full details of the Group's ongoing trading prospects with regard to both the COVID-19 pandemic and the potential impact on the Group of Brexit are given in the Group Chief Executive's Report of the UK parent company Principal Hotels Topco 1 Limited.

Financial risk management objectives and policies

Financial risk management objectives and policies are managed on a unified basis for the Group.

The Company's activities expose it to a number of financial risks including credit risk and liquidity risk. The use of financial derivatives to manage risks is subject to Board approval and no financial derivatives are used for speculative purposes.

Credit risk

The Company's principal financial assets are receivable balances with members of the Group.

The Company's credit risk from its receivable balances with members of the Group is limited because of the support provided by the UK parent company, Principal Hotels Topco 1 Limited, which has undertaken to ensure that such amounts will be recoverable in full as long as the Company remains part of the Group.

Liquidity Risk

The Group uses a mixture of shareholder debt and long term bank debt in order to maintain liquidity and to ensure that sufficient funds are available for ongoing operations and future development. At the date of signing these financial statements the Group's bank debt was, subject to compliance with normal banking conditions and covenants, not due for repayment or renewal until October 2025.

Strategic Report

Going Concern basis of accounts preparation

The directors believe it is appropriate to prepare the financial statements of the Company, as a member of the group of companies headed by Principal Hotels Topco 1 Limited ("the Group"), on a going concern basis which assumes that the Company will continue in operational existence for the foreseeable future and for at least the next 12 months. In formulating this assessment the directors have taken into consideration both the Group's commitment to provide support and, in order to assess its ability to provide that support, its sources of finance and the potential impact of the current global COVID-19 pandemic on its trading forecasts.

The Group's shareholder has agreed to provide, if required, via the Group's UK parent company a capped amount of additional funding to be used exclusively to support Principal Hotels Topco 3 Limited and its subsidiaries ("the Topco 3 Group"). The Group's UK parent company has in turn committed to exclusively provide those funds to support the Topco 3 Group, including the Company, for at least the next 12 months as long as the Company remains part of the Group. Since the balance sheet date the Topco 3 Group's lending bankers have extended its loan facility by two years such that, subject to compliance with normal banking conditions and covenants, no ongoing quarterly repayments are required and the whole loan is not now due for repayment or renewal until October 2025.

The Topco 3 Group's trading forecasts show that for a period of not less than 12 months from the date of approval of these financial statements it will have sufficient operational facilities in place. The forecasts incorporate the Topco 3 Group's current expectation of increases in revenues from their current levels as its business recovers from the COVID-19 pandemic. The extent of that recovery will, however, depend on future developments including the duration of the outbreak and the impact of Government advice and any restrictions on the hotel and travel industry and the overall economy, all of which are uncertain. In the event of greater COVID-19 disruption than forecast then if required the Topco 3 Group's directors would seek, and believe that the Group would have the ability to raise, additional finance from its investors although there can be no certainty about this.

The directors of the Company note that the above matters create a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and it may be unable to realise its assets and discharge its liabilities in the normal course of the business.

Approved by the Board of Directors
and signed on behalf of the Board

J A Burrell
Director
22 December 2020

Lagonda Selsdon Propco Limited

Directors' report

The directors present their annual report and the audited financial statements for year ended 31 December 2019.

Going Concern, Future Developments and Financial risk management objectives and policies

The directors set out in the Strategic Report

- the reasoning for and the related material uncertainty relating to the adoption of the going concern basis in preparing the annual report and financial statements for the Company
- an indication of any future developments for the Company; and
- the financial risk management objectives and policies of the Company.

Dividends

No dividends were paid during the financial year (2018: £nil). The directors do not propose to pay a final dividend (2018: £nil).

Subsequent events

Disclosures in respect of the impact on the Company's post year end activities and its future prospects resulting from the 2020 COVID-19 pandemic are given in the Strategic Report.

Political contributions

There were no donations made to political parties (2018: £nil).

Directors

The directors who held office during the year and subsequent to the balance sheet date were:

A G Troy	
J A Burrell	
G S Hunter	(resigned 30 September 2020)
G J Gallagher	(resigned 30 September 2020)

The Company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

Disclosure of relevant information to auditor

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

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

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Directors' report

Auditor

Deloitte have expressed their willingness to continue in office as auditor and appropriate arrangements are being made for them to be deemed reappointed as auditor in the absence of an Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board

J A Burrell
Director
22 December 2020

Directors' Responsibilities Statement

The directors are responsible for preparing the Annual Report 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 FRS 101 Reduced Disclosure Framework. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent; and
- 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.

Independent auditor's report to the members of Lagonda Selsdon Propco Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Lagonda Selsdon Propco Limited (the "company"):

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the statement of other comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 21.

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).

Basis for opinion

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

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the "FRC's") Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty relating to going concern

We draw attention to note 1 to the financial statements, which indicates that if the impact of COVID-19, including restrictions on the hotel and travel industry and overall economy, is greater than forecast, the directors would seek additional finance although there can be no certainty about this. As stated in note 1, these events or conditions, along with the other matters as set forth in note 1 to the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

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

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

We have nothing to report in respect of these matters.

Responsibilities of directors

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

In preparing the financial statements, the directors are responsible for assessing the 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.

Auditor's responsibilities for the audit of the financial statements

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

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

Independent auditor's report to the members of Lagonda Selsdon Propco Limited *(continued)*

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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 any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, 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.

We have nothing to report in respect of these matters.

Use of our report

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

Tim Steel

Timothy Steel ACA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

22 December 2020

Lagonda Selsdon Propco Limited

Profit and Loss Account
Year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Turnover	4	**3,258**	3,156
Administrative expenses		**(170)**	(69)
Operating profit / (loss)		**3,088**	3,087
Interest payable	6	**(407)**	(387)
Profit / (loss) before tax	7	**2,681**	2,700
Tax	8	**22**	(37)
Profit / (loss) for the financial year		**2,703**	2,663

All amounts relate to continuing activities.

Statement of Other Comprehensive Income
Year ended 31 December 2019

For the years ended 31 December 2019 and 31 December 2018 the Company had no transactions that would fall to be disclosed in a Statement of Other Comprehensive Income other than the net profit or loss for the financial year reported in the Profit and Loss Account above.

Lagonda Selsdon Propco Limited

Balance sheet
31 December 2019

	Note	2019 £'000	2018 £'000
Fixed assets			
Tangible assets	9	**-**	11,665
Right-of-use assets	10	**11,698**	-
Total fixed assets		**11,698**	11,665
Current assets			
Debtors	11	**20,481**	17,592
Total current assets		**20,481**	17,592
Creditors: amounts falling due within one year	12	**(27,864)**	(27,864)
Net current assets / (liabilities)		**(7,383)**	(10,272)
Total assets less current liabilities		**4,315**	1,393
Creditors: amounts falling due after more than one year	13	**(6,496)**	(6,255)
Provisions for liabilities	15	**(993)**	(1,015)
Net assets / (liabilities)		**(3,174)**	(5,877)
Capital and reserves			
Called up share capital	17	**3,200**	3,200
Profit and loss account		**(6,374)**	(9,077)
Equity shareholders' funds / (deficit)		**(3,174)**	(5,877)

The financial statements of Lagonda Selsdon Propco Limited, company number 4216938, have been approved and authorised for issue by the Board of Directors.

Signed on behalf of the Board of Directors

J A Burrell, Director

22 December 2020

Lagonda Selsdon Propco Limited

Statement of changes in equity
31 December 2019

	Called up share capital (note 17) £'000	Profit and loss account £'000	**Total** **£'000**
At 1 January 2018	3,200	(11,740)	**(8,540)**
Profit / (loss) for the financial year	-	2,663	**2,663**
At 31 December 2018	3,200	(9,077)	**(5,877)**
Profit / (loss) for the financial year	-	2,703	**2,703**
At 31 December 2019	3,200	(6,374)	**(3,174)**

1. ACCOUNTING POLICIES

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year except in respect of leases - see note 2 below.

Basis of accounting

Lagonda Selsdon Propco Limited is a private company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales. The address of the company's registered office is shown on page 1. The nature of the Company's operations and its principal activities are set out in the Strategic Report. These financial statements are presented in pounds sterling which is the currency of the primary economic environment in which the Company operates.

These financial statements are prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

The financial statements have been prepared under the historical cost convention, and in accordance with applicable United Kingdom accounting standards and law.

These financial statements are separate financial statements. The Company is exempt from the preparation of consolidated financial statements, because it is included in the group financial statements of Principal Hotels Topco 1 Limited.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to business combinations, share-based payment, non-current assets held for sale, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash-flow statement, standards not yet effective, impairment of assets and related party transactions. Where required, equivalent disclosures are given in the group financial statements of Principal Hotels Topco 1 Limited, which are available to the public and can be obtained as set out in note 21.

Going Concern

The directors believe it is appropriate to prepare the financial statements of the Company, as a member of the group of companies headed by Principal Hotels Topco 1 Limited ("the Group"), on a going concern basis which assumes that the Company will continue in operational existence for the foreseeable future and for at least the next 12 months. In formulating this assessment the directors have taken into consideration both the Group's commitment to provide support and, in order to assess its ability to provide that support, its sources of finance and the potential impact of the current global COVID-19 pandemic on its trading forecasts.

The Group's shareholder has agreed to provide, if required, via the Group's UK parent company a capped amount of additional funding to be used exclusively to support Principal Hotels Topco 3 Limited and its subsidiaries ("the Topco 3 Group"). The Group's UK parent company has in turn committed to exclusively provide those funds to support the Topco 3 Group, including the Company, for at least the next 12 months as long as the Company remains part of the Group. Since the balance sheet date the Topco 3 Group's lending bankers have extended its loan facility by two years such that, subject to compliance with normal banking conditions and covenants, no ongoing quarterly repayments are required and the whole loan is not now due for repayment or renewal until October 2025.

The Topco 3 Group's trading forecasts show that for a period of not less than 12 months from the date of approval of these financial statements it will have sufficient operational facilities in place. The forecasts incorporate the Topco 3 Group's current expectation of increases in revenues from their current levels as its business recovers from the COVID-19 pandemic. The extent of that recovery will, however, depend on future developments including the duration of the outbreak and the impact of Government advice and any restrictions on the hotel and travel industry and the overall economy, all of which are uncertain. In the event of greater COVID-19 disruption than forecast then if required the Topco 3 Group's directors would seek, and believe that the Group would have the ability to raise, additional finance from its investors although there can be no certainty about this.

The directors of the Company note that the above matters create a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and it may be unable to realise its assets and discharge its liabilities in the normal course of the business.

1. ACCOUNTING POLICIES *(continued)*

Adoption of new and revised standards

The Company has applied the standard IFRS 16 *Leases* for the first time in these financial statements and full details are set out in note 2. There were no other new or revised standards which had an effect on the current and prior financial years or which might have an effect on future financial periods.

Impairment of tangible assets

The carrying value of each of the Company's cash generating units is compared to its recoverable amount. If the carrying value of a unit is less than its recoverable amount an impairment loss is recognised in profit or loss. The impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to that unit and then to the other assets of the unit on a pro-rata basis.

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

Tangible fixed assets

Properties leased to fellow Group companies are treated as investment properties and are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on tangible fixed assets at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition, of each asset on a straight line basis over its expected useful life as follows:

Leasehold land and buildings	the unexpired portion of the lease

Right-of-use assets

Right-of-use assets are depreciated over the shorter period of the lease term and the useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset.

1. **ACCOUNTING POLICIES** ***(continued)***

Tax

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same tax authority and the Company intends to settle its current tax assets and liabilities on a net basis.

1. ACCOUNTING POLICIES *(continued)*

Revenue Recognition

Revenue is measured based on the consideration to which the Company expects to be entitled in a contract and excludes amounts collected on behalf of third parties.

All revenue arises in the United Kingdom and comprises rental income from fellow Group companies.

Leases - The Company as a lessee

The Company has applied IFRS 16 using the cumulative catch-up approach and therefore comparative information has not been restated and is presented under IAS 17. The details of accounting policies under both IFRS 16 and IAS 17 are presented separately below.

Policies applicable from 1 January 2019

The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the balance sheet.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

1. ACCOUNTING POLICIES *(continued)*

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the balance sheet.

The Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described above.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in administrative expenses in the profit and loss account.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Company has not used this practical expedient.

Policies applicable prior to 1 January 2019

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Leases - The Company as a lessor

The Company has entered into a short term sub-lease with a Group company in respect of its investment property. The terms of the lease do not transfer substantially all the risks and rewards of ownership to the lessee and therefore the contract is classified as an operating lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

1. ACCOUNTING POLICIES *(continued)*

Financial instruments

Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are measured initially at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

All financial assets are recognised and derecognised on a trade date basis. All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is 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.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; 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.

The Company has none of the later type of financial assets and therefore all financial assets are measured subsequently at amortised cost.

Impairment of financial assets

The Company recognises a loss allowance for expected credit losses (ECL) on trade receivables. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition. The Company always recognises lifetime ECL for trade receivables using a provision based on the Company's historical credit loss experience.

In assessing whether there has been any impairment of amounts owed by Group companies the Directors take account of the support provided by the UK parent company, Principal Hotels Topco 1 Limited, which has undertaken to ensure that such amounts will be recoverable in full.

For all other financial instruments, the Company recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

1. **ACCOUNTING POLICIES** ***(continued)***

(i) Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition.

Irrespective of the outcome of the above assessment, the Company presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Company has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Company assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

- the financial instrument has a low risk of default;
- the debtor has a strong capacity to meet its contractual cash flow obligations in the near term; and
- adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

(ii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred.

(iii) Write-off policy

The Company writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. Financial assets written off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

(iv) Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the original effective interest rate.

Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities and equity Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

1. ACCOUNTING POLICIES *(continued)*

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

The Company has no financial liabilities that are (i) held-for-trading, or (ii) designated as at FVTPL and therefore all financial liabilities are measured subsequently at amortised cost using the effective interest method.

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

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

2. CHANGES IN ACCOUNTING POLICIES

Impact of initial application of IFRS 16 *Leases*

In the current year, the Company, has applied IFRS 16 Leases (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets when such recognition exemptions are adopted. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in note 1. The impact of the adoption of IFRS 16 on the Company's financial statements is described below.

The date of initial application of IFRS 16 for the Company is 1 January 2019.

The Company has applied IFRS 16 using the cumulative catch-up approach which:

- requires the Company to recognise the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application.
- does not permit restatement of comparatives, which continue to be presented under IAS 17 and IFRIC 4.

Impact on Lessee Accounting

For leases that were classified as finance leases applying IAS 17, the carrying amount of the leased assets and obligations under finance leases measured applying IAS 17 immediately before the date of initial application is reclassified to right-of-use assets and lease liabilities respectively without any adjustments.

The right-of-use asset and the lease liability are accounted for applying IFRS 16 from 1 January 2019.

Impact on Lessor Accounting

IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. The Company's sub-lease to a fellow Group company continues to be classified as an operating lease.

Financial impact of initial application of IFRS 16

Adjustments recognised in the balance sheet at 1 January 2019

	£'000
Decrease in tangible fixed assets	(11,665)
Increase in right of use assets	11,665
Decrease in finance lease borrowings	6,255
Increase in lease liabilities	(6,255)
Net impact on net assets as at 1 January 2019	-

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the application of the Company's accounting policies, which are described in note 1 above, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

The key assumptions concerning the future, and other key sources of uncertainty at the balance sheet date, that have a potential risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Corporation tax and deferred tax

The calculation of the Company's tax charge necessarily involves a degree of estimation and judgement in respect of certain items. In calculating the Company's tax charge, there are inherent assumptions made around assets which qualify for capital allowances as well as the level of expenses which are disallowable for corporation tax purposes.

Further judgement is required in relation to any deferred tax assets which may arise as the recoverability of these assets is reliant on future taxable profits. Deferred tax liabilities are calculated based on the Company's expectations regarding the manner and timing of the recovery of the related assets.

No provision for corporation tax has been made at the balance sheet date. The amounts both provided and not provided in respect of deferred tax at the balance sheet date are set out in note 15.

Lagonda Selsdon Propco Limited

Notes to the financial statements
Year ended 31 December 2019

4. OPERATING LEASE INCOME

The Company's investment property is leased to a fellow Group company De Vere Selsdon Estate Limited under a lease agreement which expires on 10 September 2031. Rentals are reviewed annually and increase in line with the growth in RPI subject to a 0% minimum increase and a 4% maximum increase.

	2019	2018
	£'000	£'000
Amounts recognised in the profit and loss account from investment properties		
Income from operating leases	**3,258**	3,156

At the balance sheet date the minimum future undiscounted lease payments receivable on leases of investment properties are as follows:

	2019	2018
Within 1 year	**3,317**	3,232
Between 1 and 2 years	**3,317**	3,232
Between 2 and 3 years	**3,317**	3,232
Between 3 and 4 years	**3,317**	3,232
Between 4 and 5 years	**3,317**	3,232
Later than 5 years	**22,209**	24,878
Total receivable	**38,794**	41,038

5. STAFF COSTS

The directors are the only employees of the Company. The directors received no remuneration in respect of services to the Company during the year (2018: £nil). The directors are employed by Principal Hayley Limited, a fellow Group company, and it is not practicable to allocate a proportion of their costs to the Company.

6. INTEREST PAYABLE

	2019	2018
	£'000	£'000
Lease interest (note 14)	**407**	-
Finance lease interest	**-**	387
Total interest payable	**407**	387

7. PROFIT / (LOSS) BEFORE TAX

	2019 £'000	2018 £'000
Profit /(loss) before tax is stated after charging / (crediting):		
Depreciation – tangible assets	-	69
Depreciation – right-of-use assets	70	-
Auditor's remuneration - audit of the Company's financial statements	-	-

Auditor's remuneration of £2,000 (2018: £2,000) was borne by a fellow Group company.

8. TAX

	2019 £'000	2018 £'000
The tax charge for the year comprises:		
Current tax		
UK corporation tax on the profit / (loss) for the year	-	-
Total current tax charge / (credit)	-	-
Deferred tax		
Total deferred tax charge / (credit)	(22)	37
Total tax charge / (credit) for the year	(22)	37

The charge for the year can be reconciled to the profit in the profit and loss account as follows:

	2019 £'000	2018 £'000
Profit / (loss) before tax	2,681	2,700
Tax at standard UK rate of 19.0% (2018: 19.0%)	509	513
Effects of:		
Amounts not deductible for tax purposes	19	-
Other amounts deductible for tax purposes	(101)	(134)
Group relief surrendered for nil consideration	(435)	(369)
Change in tax rates	1	(1)
Adjustments to the tax charge in respect of prior periods	(15)	28
Total tax charge / (credit) for the year	(22)	37

9. TANGIBLE FIXED ASSETS

	Long leasehold investment properties £'000
Cost	
At 1 January 2019 – as previously reported	33,398
Change of accounting policy (note 2)	(33,398)
At 1 January 2019 (as restated) and 31 December 2019	-
Accumulated depreciation	
At 1 January 2019 – as previously reported	21,733
Change of accounting policy (note 2)	(21,733)
At 1 January 2019 (as restated) and 31 December 2019	-
Net book value	
At 31 December 2019	-
At 31 December 2018	11,665

Included within fixed assets are assets held under finance leases with a net book value of £nil (2018: £11,665,000).

10. RIGHT-OF-USE ASSETS

	Land and buildings £'000
Cost	
At 1 January 2019 – as previously reported	-
Change of accounting policy (note 2)	33,398
At 1 January 2019 – as restated	33,398
Additions	103
Disposals	-
At 31 December 2019	33,501
Accumulated depreciation	
At 1 January 2019 – as previously reported	-
Change of accounting policy (note 2)	21,733
At 1 January 2019 – as restated	21,733
Charge for the year	70
Disposals	-
At 31 December 2019	21,803
Net book value	
At 31 December 2019	**11,698**
At 31 December 2018	-

The Company's interests in right-of-use assets are charged in favour of the Group's bankers as security for its borrowings.

11. DEBTORS

	2019 £'000	2018 £'000
Amounts owed by the Company's immediate parent company	**3,150**	-
Amounts owed by subsidiaries of the ultimate parent company	**17,318**	17,579
Other debtors	**13**	13
Total debtors	**20,481**	17,592

Amounts owed by the Company's immediate parent company and by subsidiaries of the ultimate parent company are repayable on demand and are interest free.

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2019 £'000	2018 £'000
Amounts owed to the Company's immediate parent company	-	27,864
Amounts owed to subsidiaries of the ultimate parent company	27,864	-
Lease liabilities (note 14)	-	-
Obligations under finance leases (note 16)	-	-
Total creditors falling due within one year	27,864	27,864

Amounts owed to the Company's immediate parent company and to subsidiaries of the ultimate parent company are payable on demand and are interest free.

13. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2019 £'000	2018 £'000
Lease liabilities (note 14)	6,496	-
Obligations under finance leases (note 16)	-	6,255
Total creditors falling due after more than one year	6,496	6,255

14. LEASE LIABILITIES

Right of use assets

Movements in right of use assets are set out in note 10.

Lease liabilities	2019 £'000	2018 £'000
Amounts due for settlement within 12 months (note 12)	-	-
Amounts due for settlement in more than 12 months (note 13)	6,496	-
	6,496	-
Maturity analysis		
Within one year	-	-
In the second to fifth year inclusive	-	-
After five years	6,496	-
	6,496	-

The total cash outflow for leases in 2019 was £269,000.

Amounts recognised in the profit and loss account	2019 £'000	2018 £'000
Depreciation expense on right of use assets	70	-
Interest expense on lease liabilities	407	-

15. DEFERRED TAX

Deferred tax is provided as follows:	**Accelerated tax depreciation £'000**	**Tax losses £'000**	**Total £'000**
(Asset) / liability at 1 January 2018	978	-	**978**
Charged / (credited) to the profit and loss account	37	-	**37**
(Asset) / liability at 31 December 2018	1,015	-	**1,015**
Charged / (credited) to the profit and loss account	(22)	-	**(22)**
(Asset) / liability at 31 December 2019	993	-	**993**

Deferred tax assets and liabilities are offset where the Company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2019 £'000	2018 £'000
Deferred tax liabilities	**993**	1,015
Deferred tax assets	-	-
Total deferred tax	**993**	1,015

The Company has no unprovided deferred tax assets (2018: £nil).

The deferred tax balances in these financial statements are calculated using the tax rates substantively enacted at 31 December 2019 by the Finance Bill 2016 which reduced the main rate of corporation tax to 17% from 1 April 2020. However, in the March 2020 Budget it was announced that the cut in the rate to 17% will now not occur and the corporation tax rate will be held at 19%. As this change had not been enacted at the balance sheet date the deferred tax balances at 31 December 2019 are measured at 17%. Had the amended future tax rate of 19% been used in the calculations at 31 December 2019 the deferred tax liability would have increased by £117,000.

16. OBLIGATIONS UNDER FINANCE LEASES

From 1 January 2019, the Company has applied the provisions of IFRS 16 *Leases* as set out in note 2. Liabilities in respect of finance leases are now categorised as lease liabilities at 31 December 2019 (see note 14).

The below disclosures are as required by IAS 17 which applied in respect of the prior year.

Minimum lease payments	2018 £'000
Amounts payable under finance leases:	
Within one year	264
In the second to fifth year inclusive	1,117
After five years	352,469
	353,850
Less: future finance charges	(347,595)
Present value of lease obligations	6,255

Present value of minimum lease payments	
Amounts payable under finance leases:	
Within one year	-
In the second to fifth year inclusive	-
After five years	6,255
Present value of lease obligations	6,255
Analysed as:	
Amounts due for settlement within 12 months (note 12)	-
Amounts due for settlement in more than 12 months (note 13)	6,255
	6,255

17. CALLED UP SHARE CAPITAL

	2019 £'000	2018 £'000
Allotted, called up and fully paid:		
3,200,001 Ordinary shares of £1 each	**3,200**	3,200
Total share capital	**3,200**	3,200

18. RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemption in FRS 101 not to disclose transactions with other Group companies.

19. CONTINGENT LIABILITIES

The Company, together with certain other fellow Group companies, has given guarantees to a maximum of £222.8 million (2018 - £234.5 million) over the UK borrowings of Principal Hotels Topco 3 Limited a fellow Group company. At 31 December 2019 the borrowings outstanding covered by this guarantee totalled £222.8 million (2018 - £234.5 million).

20. SUBSEQUENT EVENTS

The 2020 COVID-19 pandemic is an event that arose after the balance sheet date which does not affect the amounts recognised in these financial statements. Disclosures in respect of its impact on the Company's post year end activities and future prospects are given in the Strategic Report.

21. ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

In the opinion of the directors, the Company's ultimate parent company is SOF-9 Rome Holdings Lux Sarl, a company incorporated in Luxembourg. The ultimate parent company is owned by private equity funds and is managed on their behalf by Starwood Capital Group LLC, a company registered in the United States of America. The parent undertaking of the largest group which includes the Company and for which group financial statements are prepared is Principal Hotels Topco 1 Limited, a company incorporated in Great Britain which has the same Registered Office as the Company. The parent undertaking of the smallest such group is Principal Hotels Topco 3 Limited, a company incorporated in Great Britain which has the same Registered Office as the Company. Copies of the group financial statements of Principal Hotels Topco 1 Limited and Principal Hotels Topco 3 Limited are available from Companies House, Crown Way, Maindy, Cardiff CF14 3UZ.

The Company's immediate controlling party is De Vere Selsdon Estate Limited.