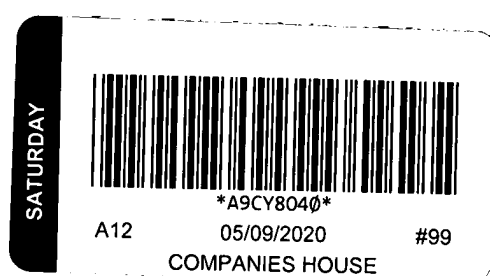


Company No: 10816508

GH EQUITY UK LIMITED
REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2019



GH EQUITY UK LIMITED

COMPANY INFORMATION

DIRECTORS

K Rhazali
O Acar
D Z Eskenazi
I A Gray

COMPANY NUMBER

10816508

REGISTERED OFFICE

Third Floor, One London Square
Cross Lanes
Guildford
Surrey
GU1 1UN

AUDITOR

RSM UK Audit LLP
Chartered Accountants
Third Floor, One London Square
Cross Lanes
Guildford
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GH EQUITY UK LIMITED

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GH EQUITY UK LIMITED

STRATEGIC REPORT

The Directors present the Strategic Report of the Group and Company (Company No: 10816508) for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The principal activity of GH Equity UK Limited (the 'Company') is that of a holding company. The principal activity of the Company and its subsidiaries (the 'Group') is that of property investment. The investment property comprises the Group's long leasehold interest in the Grosvenor House Hotel, Park Lane, London.

BUSINESS REVIEW

These financial statements cover the year ended 31 December 2019.

The financial performance is presented in the consolidated statement of comprehensive income on page 10. The profit for the year was £20,753,907 (2018: £48,304,635), which includes the upward revaluation of the investment property by £32,600,000 (2018: £67,400,000) and a book loss of £7,880,268 arising on fair value of the derivative financial instrument 'swap' contract (2018: £3,118,270 gain on fair value). At the end of the year the consolidated statement of financial position showed total assets of £761,627,905 (2018: £729,788,727) and equity of £168,317,270 (2018: £147,563,363).

The Group's external borrowings amount to £435m (2018: £435m), whilst repayments of amounts owed to group in the year have reduced the group loan to £107.3m at 31 December 2019 (2018: £117.7m).

In view of the Group's long term financing arrangements, the Directors consider it appropriate to prepare the financial statements on a going concern basis. Further detail of the funding arrangements are given in note 13 of the financial statements.

No dividends were paid during the year and the Directors do not recommend a dividend in respect of 2019.

Rent receivable for the year amounted to £29,316,652 (2018: £28,742,800), and interest payable on loans for the year amounted to £23,924,172 (2018: £22,271,893).

A valuation of the investment property was undertaken by an independent professional valuer as at January 2020. The leasehold property was valued on an open market basis at that date at £750m and the Directors have attributed this valuation as the fair value of the investment property at 31 December 2019.

The Directors are satisfied with the Group's financial performance during the year and with the investment property valuation at the year end date.

GH EQUITY UK LIMITED

STRATEGIC REPORT (Continued)

KEY PERFORMANCE INDICATORS

The board of Directors reviews and monitors the following key performance indicators:

	2019 £	2018 £
Investment property valuation	750,000,000	717,400,000
Rental income	29,316,652	28,742,800
Rental yield	3.9%	4.0%
Ratio of third party financing to property value	58%	59.8%

The Directors consider that the rental yield and gearing ratio at 31 December 2019 were acceptable.

Going concern

In their consideration of the appropriateness of the going concern the basis of preparation of these financial statements, the Directors have performed an assessment of the financial impact of the recent global pandemic of COVID-19 on the Group. The principal financial impact has been a reduction in 2020 rental income, and forecasted rental reductions for 2021. As a result of the reduced rental income the group is, in 2020, in breach of financial covenants within its borrowing facilities. Additionally, forecasted rental income for 2021 is not sufficient to cover loan interest payments on the borrowing facilities in the short term.

In view of these events, the Directors have put in place measures to enable the Group to continue to meet its liabilities as they fall due for a period of 12 months from signing these financial statements. The Group has arranged waivers of the loan covenant breaches which have arisen from the 2020 reduction in rental income to cover the period to 29 December 2020. The Directors are confident that subsequent waivers will be approved by the lenders after this date should they be necessary. As part of the loan covenant waiver arrangements the Katara group has agreed to provide additional cash reserves such that an amount of £8.5m is on deposit with the Group at any time in order to sufficiently cover any loan interest shortfalls. In the 2020 period to date the Katara group has provided cash support of £4.5m. The Group has also received written confirmation that, in addition to the cash reserves already made available, the Katara group will provide sufficient financial support, should it be required, for the group to meet its liabilities as they fall due for a period of at least 12 months from the date of approval of the 2019 financial statements.

As a result of the cash reserves made available in 2020, the continued availability of support from the Katara group and the loan covenant waivers expected to be approved by the lenders, the directors consider that the group will have adequate resources to continue in operational existence for the foreseeable future.

Whilst the directors are confident that these actions and their forecast can be achieved, there can be no certainty because of the trading conditions across the world at present. Based on these forecasts and action plans the directors consider it is appropriate for the financial statements to be prepared on the going concern basis. The financial statements do not include any adjustments that would result should the going concern basis of preparation not be appropriate. In the event that this basis is not appropriate provisions may be required and assets may need to be written down to their recoverable amount.

GH EQUITY UK LIMITED

STRATEGIC REPORT (Continued)

FUTURE DEVELOPMENTS

The Directors remain alert to good business opportunities within the sector, although no opportunities for new activities are currently being pursued.

The temporary closure of The Grosvenor House Hotel from March 2020 following the COVID-19 outbreak has impacted the Group's rental income in 2020. The Directors have ensured that measures are in place to ensure the Group will remain funded by its shareholder group in order to meet all liabilities as they fall due for payment.

Further details of the events since the balance sheet date, in particular the reduction of rental income and possible impact on the investment property valuation in 2020, are contained in the Directors Report and in note 23.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Directors monitor potential areas of business risk and address the risks wherever possible.

The Directors have assessed the key risks to the Group and consider that it is exposed to liquidity risk, interest rate risk, tenant credit risk, cash flow risk and market value risk, summarised as follows:

Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its financial obligations as they fall due. The Group seeks to minimise liquidity risk on refinancing by borrowing for as long as possible and at the lowest acceptable cost. The Group's third-party financing arrangements are repayable in 2024 and the Directors are confident that there is no foreseeable risk to the Group's liquidity.

Interest rate risk

At 31 December 2019 the Group is party to a variable rate loan of £380m (2018: £380m), however an interest rate swap is in place which fixes the interest rate on the entire loan amount of £380m. The Group is party to a £55m loan facility (2018: £55m), on which interest is payable at a fixed rate of 6.2%.

Other than the interest rate swap, the Group does not use any other financial instruments to mitigate interest rate risk.

Tenant credit risk

The Group is exposed to tenant credit risk, which is the risk of the lessee not making agreed rental payments. The risk has been mitigated by the Group obtaining, by way of the property lease agreement, a guarantee in respect of rental payments from the lessee's controlling party, Marriott International Inc.

Cash flow risk

The Group is at risk of not making its interest and other payments if it is unable to collect receivables when due. The Group minimises cash flow risk by minimising its tenant credit risk and through the use of a specialist managing agent to ensure collection of rent takes place on time.

Market value risk

The Group is exposed to the risk of a drop in the market value of its investment property. The Group's investment property value is determined by market forces outside of the Group's control. The Group is exposed to loan default implications resulting from a fall in property values as senior financing arrangements include loan to value covenants.

GH EQUITY UK LIMITED

STRATEGIC REPORT (Continued)

COVID-19 risk

The Directors have, in their assessment of risks impacting the Group, considered the risks arising from COVID-19 and also considered the impact of the Covid-19 pandemic on the group's balance sheet position as at 31 December 2019.

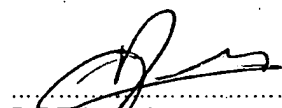
The Director's expectation is that rental income will steadily increase in the post-pandemic period following the reopening of the hotel. However the period over which rental income volatility will persist is difficult to predict as the situation is still evolving and, in the meantime, cash flow risk has been addressed via the availability of financial support from the Katara shareholder group. In addition, the Group has taken advantage of government approved tax deferral arrangements in the 2020 period.

The breach of financial loan covenants arising as a result of the reduction in rental income in 2020 has been addressed by the Directors who have arranged waivers of the covenant breaches with the lenders.

The Directors have identified no issues concerning recoverability of assets at the balance sheet date. Whilst the directors acknowledge that, subsequent to the year end date, there may have been a negative impact on the investment property valuation, any such impact is expected to be short term, restricted to the COVID-19 pandemic period and its immediate aftermath. The directors are confident that, post-pandemic, the property valuation will return to pre-pandemic levels.

Further details of the Group's risk and capital management policies can be found in note 17.

ON BEHALF OF THE BOARD



.....
D Z Eskenazi
Director

Dated: 28/08/2020 2020

GH EQUITY UK LIMITED

DIRECTORS' REPORT

The Directors present the report and consolidated Financial Statements of the Group and Company (Company No: 10816508) for the year ended 31 December 2019. The Company is incorporated as a Limited Company and is domiciled in England, registered under the Companies Act 2006.

DIRECTORS

The Directors who held office during the year and up to the date of signature of the financial statements were as follows:

K Rhazali	
O Acar	(appointed 16 October 2019)
D Z Eskenazi	(appointed 16 October 2019)
I A Gray	(appointed 14 March 2019)
H A Al-Mulla	(resigned 10 July 2019)
A L J Fernandes	(resigned 10 July 2019)

RESULTS AND DIVIDENDS

The result for the year is set out on page 10. No dividends were paid. The Directors do not recommend payment of a final dividend.

POST BALANCE SHEET EVENTS

The COVID-19 outbreak that emerged since early 2020 has impacted the Group's rental income in 2020. This may have had a negative impact on the investment property valuation subsequent to the year-end date. Further details on these events are contained within note 23.

The Directors have put in place measures to ensure that the Group will be in a position to continue to operate as a going concern for the foreseeable future. These measures are set out in detail within the Strategic Report and the going concern accounting policy.

POLICY ON PAYMENT OF SUPPLIERS

Substantially all of the supplier payment terms are 30 days (2018: 30 days). The policy is to pay suppliers by the due date. The current trade creditors days is 8 days (2018: 12 days).

AUDITOR

RSM UK Audit LLP has indicated its willingness to continue in office.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO THE AUDITOR

The Directors confirm that so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware; and the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

GH EQUITY UK LIMITED

DIRECTORS' REPORT (CONTINUED)

DISCLOSURE OF INFORMATION IN THE STRATEGIC REPORT

Information regarding strategy, financial risk management, principal activity and future developments are not shown in the Directors' Report as this information is presented in the Strategic Report in accordance with section 414c(11) of the Companies Act 2006.

ON BEHALF OF THE BOARD



.....
D Z Eskenazi
Director

Dated: 28/08/2020

GH EQUITY UK LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the Directors to prepare Group and Company financial statements for each financial year. The Directors have elected under company law to prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and to prepare Company financial statements in accordance with UK Accounting Standards and applicable law - UK Generally Accepted Accounting Practice ("UK GAAP"), including Financial Reporting Standard 101: Reduced Disclosure Framework ("FRS 101").

The Group financial statements are required by law and IFRS adopted by the EU to present fairly the financial position and performance of the Group and the Company; the Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period.

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

- a. select suitable accounting policies and then apply them consistently;
- b. make judgements and accounting estimates that are reasonable and prudent;
- c. for the Group financial statements, state whether they have been prepared in accordance with IFRSs adopted by the EU, and for the Company financial statements state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the Financial Statements comply with the Companies Act 2006. The Directors are also responsible for safeguarding the assets of the Group and 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 GH EQUITY UK LIMITED

Opinion

We have audited the financial statements of GH Equity UK Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2019 which comprise the Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Company Statement of Financial Position, Consolidated Statement of Changes in Equity, Company Statement of Changes in Equity, Consolidated Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards including FRS 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 group's and of the parent company's affairs as at 31 December 2019 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Material uncertainty related to going concern

We draw attention to note 1 in the financial statements, which indicates that the group may be adversely affected by the impact of the Covid-19 (Coronavirus) outbreak. Whilst the directors are taking action to mitigate the impact, given the unpredictable nature and impact of the outbreak, and how rapidly the responses to the outbreak are changing, the directors are unable to predict the full extent of the impact with regards to ongoing rental income and future discussions with their funders. As stated in note 1, these events or conditions, along with the other matters as set forth in note 23, indicate that a material uncertainty exists that may cast significant doubt on the group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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 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 this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GH EQUITY UK LIMITED
(Continued)

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

RSM UK Audit LLP

Jonathan Da Costa (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
Third Floor, One London Square
Cross Lanes
Guildford
Surrey, GU1 1UN

..... 11/7/2020

GH EQUITY UK LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2019

	Note	2019 £	2018 £
Revenue	3	29,977,201	29,450,355
Administrative expenses	4	(1,084,940)	(1,427,563)
Increase in fair value of investment property	8	32,600,000	67,400,000
Impairment losses on financial assets	4	-	(8,392,842)
Operating profit		61,492,261	87,029,950
Fair value (loss)/gain on derivative financial instruments	15	(7,880,286)	3,118,270
Finance costs	5	(24,916,897)	(31,236,070)
Profit before tax	4	28,695,078	58,912,150
Income tax expense	7	(7,941,171)	(10,607,515)
Profit and total comprehensive income for the year		20,753,907	48,304,635

The total comprehensive income for the year is entirely attributable to the owners of the parent company.

The Group has elected to take exemption under Section 408 of the Companies Act 2006 to not present the Company statement of comprehensive income.

GH EQUITY UK LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2019

Company No: 10816508

	Note	2019 £	2018 £
ASSETS			
Non-current assets			
Investment property	8	750,000,000	717,400,000
Property, plant and equipment			
- Right-of-use assets	9	475,301	-
		<u>750,475,301</u>	<u>717,400,000</u>
Current assets			
Trade and other receivables	11	24,211	23,169
Current tax receivable		-	756,121
Cash and cash equivalents		11,128,393	11,609,437
		<u>11,152,604</u>	<u>12,388,727</u>
TOTAL ASSETS		<u>761,627,905</u>	<u>729,788,727</u>
EQUITY AND LIABILITIES			
Equity			
Share capital	18	39,610,979	39,610,979
Retained earnings		128,706,291	107,952,384
Equity attributable to the owners of the parent		<u>168,317,270</u>	<u>147,563,363</u>
Non-current liabilities			
Borrowings	13	536,435,757	546,974,744
Lease liabilities	14	480,587	-
Derivative financial instrument	15	9,299,535	1,419,249
Deferred tax liabilities	16	25,744,053	18,588,357
Total non-current liabilities		<u>571,959,932</u>	<u>566,982,350</u>
Current liabilities			
Trade and other payables	12	21,321,157	15,243,014
Current tax liabilities		29,354	-
Lease liabilities	14	192	-
Total current liabilities		<u>21,350,703</u>	<u>15,243,014</u>
Total liabilities		<u>593,310,635</u>	<u>582,225,364</u>
TOTAL EQUITY AND LIABILITIES		<u>761,627,905</u>	<u>729,788,727</u>

The Financial Statements were approved by the Board of Directors and authorised for issue on 28/03/2020 and are signed on its behalf by:

D Z Eskenazi
Director

GH EQUITY UK LIMITED

**COMPANY STATEMENT OF FINANCIAL POSITION
as at 31 December 2019**

Company No: 10816508

	Note	2019 £	2018 £
ASSETS			
Non-current assets			
Investments	10	100	100
Trade and other receivables	11	160,594,916	158,208,408
		<u>160,595,016</u>	<u>158,208,508</u>
Current assets			
Trade and other receivables	11	25,371,297	16,180,827
TOTAL ASSETS		<u>185,966,313</u>	<u>174,389,335</u>
EQUITY AND LIABILITIES			
Equity			
Share capital	18	39,610,979	39,610,979
Retained earnings		<u>(1,347,863)</u>	<u>(4,742,624)</u>
Equity attributable to the owners of the company		<u>38,263,116</u>	<u>34,868,355</u>
Non-current liabilities			
Borrowings	13	106,175,000	117,675,000
Total non-current liabilities		<u>106,175,000</u>	<u>117,675,000</u>
Current liabilities			
Trade and other payables	12	41,528,197	21,845,980
Total current liabilities		<u>41,528,197</u>	<u>21,845,980</u>
Total liabilities		<u>147,703,197</u>	<u>139,520,980</u>
TOTAL EQUITY AND LIABILITIES		<u>185,966,313</u>	<u>174,389,335</u>

The Company's profit and total comprehensive income for the year was £3,394,761 (2018: loss of £3,789,762).

The Financial Statements were approved by the Board of Directors and authorised for issue on 28/08/2020 and are signed on its behalf by:

D Z Eskenazi
Director

GH EQUITY UK LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2019

	Share capital £	Retained earnings £	Total £
Balance at 1 January 2018	1	59,647,749	59,647,750
<i>Changes in equity for 2018</i>			
Profit and total comprehensive income for the year	-	48,304,635	48,304,635
Transactions with shareholders:			
Shares issued	39,610,978	-	39,610,978
Balance at 31 December 2018	<u>39,610,979</u>	<u>107,952,384</u>	<u>147,563,363</u>
<i>Changes in equity for 2019</i>			
Profit and total comprehensive income for the year	-	20,753,907	20,753,907
Balance at 31 December 2019	<u>39,610,979</u>	<u>128,706,291</u>	<u>168,317,270</u>

Share capital

Share capital represents the par value of ordinary shares issued by the parent.

Retained earnings

Retained earnings represent the cumulative profit and loss of the Group, net of distributions to owners.

GH EQUITY UK LIMITED**COMPANY STATEMENT OF CHANGES IN EQUITY**
for the year ended 31 December 2019

	Share capital £	Retained earnings £	Total £
Balance at 1 January 2018	1	(952,862)	(952,861)
<i>Changes in equity for 2018</i>			
Loss and total comprehensive loss	-	(3,789,762)	(3,789,762)
Transactions with shareholders:			
Shares issued	39,610,978	-	39,610,978
Balance at 31 December 2018	<u>39,610,979</u>	<u>(4,742,624)</u>	<u>34,868,355</u>
<i>Changes in equity for 2019</i>			
Profit and total comprehensive income	-	3,394,761	3,394,761
Balance at 31 December 2019	<u>39,610,979</u>	<u>(1,347,863)</u>	<u>38,263,116</u>

Share capital

Share capital represents the par value of ordinary shares issued by the Company.

Retained earnings

Retained earnings represent the cumulative profit and loss of the Company, net of distributions to owners.

GH EQUITY UK LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2019

	Note	2019 £	2018 £
Cash flows from operating activities			
Profit for the year before tax		28,695,078	58,912,150
Depreciation – leased assets		5,658	-
Finance costs	5	24,916,897	31,236,070
Increase in fair value of investment property	8	(32,600,000)	(67,400,000)
Fair value loss/(gain) on derivative financial instrument	15	7,880,286	(3,118,270)
Operating cash flows before movements in working capital		28,897,919	19,629,950
Decrease in trade and other receivables		28,959	4,041,892
Decrease in trade and other payables		(1,382,542)	(10,416,372)
Cash generated from operations		27,544,336	13,255,470
Interest paid		(16,525,199)	(15,946,809)
Income tax paid		-	(468,300)
Net cash generated from/(used by) operating activities		11,019,137	(3,159,639)
Cash flows from financing activities			
Lease repayments		(181)	-
Repayment of secured loan borrowings		-	(13,000,000)
Repayment of group loan		(11,500,000)	-
Advance on bank borrowings		-	55,000,000
Repayment of bank borrowings		-	(40,000,000)
Loan arrangement fees		-	(8,112,739)
Net cash flow used in financing activities		(11,500,181)	(6,112,739)
Net decrease in cash and cash equivalents		(481,044)	(9,272,378)
Cash and cash equivalents at beginning of the year		11,609,437	20,881,815
Cash and cash equivalents at end of the year		11,128,393	11,609,437

Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash at bank and in hand and other short term, highly liquid investments with a maturity of less than three months. This is consistent with the presentation in the statement of financial position.

GH EQUITY UK LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2019

1. PRINCIPAL ACCOUNTING POLICIES

General information

The principal activity of the Company is that of a holding Company. The principal activity of the Group is that of property investment in the Grosvenor House Hotel, Park Lane, London.

The Company is a private company limited by shares and it is incorporated and domiciled in England and Wales. The address of its registered office is Third Floor, One London Square, Cross Lanes, Guildford, Surrey, GU1 1UN.

Basis of preparation

The financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations as adopted by the EU and the requirements of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared on the historical cost basis except for the re-measurement of investment properties and certain financial instruments that are measured at fair value.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving judgement or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

Reduced disclosures

The Company is a qualifying entity for the purposes of FRS 101 Reduced Disclosure Framework ("FRS 101") and has therefore taken the advantage of the following exemptions from the requirements of IFRS for parent company information presented within the consolidated financial statements:

- Presentation of a Company Cash Flow Statement and related notes;
- Inclusion of an explicit and unreserved statement of compliance with IFRS;
- Disclosure of Company key management compensation;
- Comparative period reconciliations for Company share capital, investments, property and plant and equipment;
- Related party disclosures for transactions with the parent or wholly owned members of the group; and
- Disclosure of the future impact of new International Financial Reporting Standards in issue but not yet effective at the reporting date.

Adoption of new and revised Standards

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2019:

IFRS 16 Leases

The impact of adopting IFRS 16 is disclosed in note 22.

GH EQUITY UK LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued) **for the year ended 31 December 2019**

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

New and revised standards in issue but not yet effective

There are no new standards or amendments in issue but not yet effective that are applicable to the financial statements of the Group.

Going concern

In their consideration of the appropriateness of the going concern the basis of preparation of these financial statements, the Directors have performed an assessment of the financial impact of the recent global pandemic of COVID-19 on the Group. The principal financial impact has been a reduction in 2020 rental income, and forecasted rental reductions for 2021. As a result of the reduced rental income the group is, in 2020, in breach of financial covenants within its borrowing facilities. Additionally, forecasted rental income for 2021 is not sufficient to cover loan interest payments on the borrowing facilities in the short term.

In view of these events, the Directors have put in place measures to enable the Group to continue to meet its liabilities as they fall due for a period of 12 months from signing these financial statements. The Group has arranged waivers of the loan covenant breaches which have arisen from the 2020 reduction in rental income to cover the period to 29 December 2020. The Directors are confident that subsequent waivers will be approved by the lenders after this date should they be necessary. As part of the loan covenant waiver arrangements the Katara group has agreed to provide additional cash reserves such that an amount of £8.5m is on deposit with the Group at any time in order to sufficiently cover any loan interest shortfalls. In the 2020 period to date the Katara group has provided cash support of £4.5m. The Group has also received written confirmation that, in addition to the cash reserves already made available, the Katara group will provide sufficient financial support, should it be required, for the group to meet its liabilities as they fall due for a period of at least 12 months from the date of approval of the 2019 financial statements.

As a result of the cash reserves made available in 2020, the continued availability of support from the Katara group and the loan covenant waivers expected to be approved by the lenders, the directors consider that the group will have adequate resources to continue in operational existence for the foreseeable future.

Whilst the directors are confident that these actions and their forecast can be achieved, there can be no certainty because of the trading conditions across the world at present. Based on these forecasts and action plans the directors consider it is appropriate for the financial statements to be prepared on the going concern basis. The financial statements do not include any adjustments that would result should the going concern basis of preparation not be appropriate. In the event that this basis is not appropriate provisions may be required and assets may need to be written down to their recoverable amount.

Audit exemption

The subsidiary undertaking, Reeves Lease Limited, has claimed the audit exemption under Companies Act 2006 Section 479A with respect to its year ended 31 December 2019. The Company has given a statement of guarantee under Companies Act Section 479C, to guarantee all outstanding liabilities to which the subsidiary company is subject as at 31 December 2019.

GH EQUITY UK LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued) for the year ended 31 December 2019

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Basis of consolidation

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

Foreign currency translation

The functional and presentational currency of the Group is Sterling. The Group does not enter into transactions in currencies other than its functional currency.

Revenue recognition

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

Leasing

Rental income from assets leased under operating leases is recognised on a straight-line basis over the term of the relevant lease in the income statement. Rent free periods and other incentives given to tenants at the inception of the lease are spread on a straight-line basis over the relevant lease term and also recognised in the income statement. Rental income received in advance is deferred to the future period to which it relates.

Other income included within revenue represents insurance commissions receivable and lease premiums payable by tenants upon surrender of a lease. Insurance commissions are recognised as income in the income statement over the period of the insurance, based upon the effective commencement or renewal dates of the related policies. Any timing differences arising at the reporting date are recognised as either deferred or accrued income in the statement of financial position as applicable.

GH EQUITY UK LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2019

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Leases – as lessee

On commencement of a contract (or part of a contract) which gives the Group the right to use an asset for a period of time in exchange for consideration, the company recognises a right-of-use asset and a lease liability unless the lease qualifies as a 'short-term' lease or a 'low-value' lease.

Short-term leases

Where the lease term is twelve months or less and the lease does not contain an option to purchase the leased asset, lease payments are recognised as an expense on a straight-line basis over the lease term.

Leases of low-value assets

For leases where the underlying asset is 'low-value', lease payments are recognised as an expense on a straight-line basis over the lease term.

Initial and subsequent measurement of the right-of-use assets

A right-of-use asset is recognised at commencement of the lease and initially measured at the amount of the lease liability, plus any incremental costs of obtaining the lease and any lease payments made at or before the leased asset is available for use by the Group.

The right-of-use asset is subsequently measured at cost less accumulated depreciation and any accumulated impairment losses. The depreciation methods applied are as follows:

Leased property

On a straight-line basis over the shorter of the lease term and the useful life (85 years).

The right-of-use asset is adjusted for any re-measurement of the lease liability and lease modifications, as set out below. An estimate of costs to be incurred in restoring the leased asset to the condition required under the terms and conditions of the lease is recognised as part of the cost of the right-of-use asset when the Group incurs the obligation for these costs.

The costs are incurred at the start of the lease or over the lease term. The provision is measured at the best estimate of the expenditure required to settle the obligation.

Initial measurement of the lease liability

The lease liability is initially measured at the present value of the lease payments during the lease term discounted using the interest rate implicit in the lease, or the incremental borrowing rate if the interest rate implicit in the lease cannot be readily determined.

The lease term is the non-cancellable period of the lease plus extension periods that the Company is reasonably certain to exercise and termination periods that the Group is reasonably certain not to exercise.

GH EQUITY UK LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2019

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Leases – as lessee (continued)

Initial measurement of the lease liability (Continued)

Lease payments include fixed payments, less any lease incentives receivable, variable lease payments dependant on an index or a rate and any residual value guarantees. Variable lease payments are initially measured using the index or rate when the leased asset is available for use.

Termination penalties are included in the lease payments if the lease term has been adjusted because the Group reasonably expects to exercise an option to terminate the lease.

The exercise price of an option to purchase the leased asset is included in the lease liability when the Group is reasonably certain to exercise that option.

Subsequent measurement of the lease liability

The lease liability is subsequently increased for a constant periodic rate of interest on the remaining balance of the lease liability and reduced for lease payments. Interest on the lease liability is recognised in profit or loss, unless interest is directly attributable to qualifying assets, in which case it is capitalised in accordance with the Group's policy on borrowing costs.

Variable lease payments not included in the measurement of the lease liability as they are not dependent on an index or rate, are recognised in profit or loss in the period in which the event or condition that triggers those payments occurs.

Re-measurement of the lease liability

The lease liability is adjusted for changes arising from the original terms and conditions of the lease that change the lease term, the Group's assessment of its option to purchase the leased asset, the amount expected to be payable under a residual value guarantee and/or changes in lease payments due to a change in an index or rate. The adjustment to the lease liability is recognised when the change takes effect and is adjusted against the right-of-use asset, unless the carrying amount of the right-of-use asset is reduced to nil, when any further adjustment is recognised in profit or loss.

Adjustments to the lease payments arising from a change in the lease term or the lessee's assessment of its option to purchase the leased asset are discounted using a revised discount rate. The revised discount rate is calculated as the interest rate implicit in the lease for the remainder of the lease term, or if that rate cannot be readily determined, the lessee's incremental borrowing rate at the date of reassessment.

Changes to the amounts expected to be payable under a residual value guarantee and changes to lease payments due to a change in an index or rate are recognised when the change takes effect, and are discounted at the original discount rate unless the change is due to a change in floating interest rates, when the discount rate is revised to reflect the changes in interest rate.

GH EQUITY UK LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2019

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Leases – as lessee (continued)

Lease modifications

A lease modification is a change that was not part of the original terms and conditions of the lease and is accounted for as a separate lease if it increases the scope of the lease by adding the right to use one or more additional assets with a commensurate adjustment to the payments under the lease.

For a lease modification not accounted for as a separate lease, the lease liability is adjusted for the revised lease payments, discounted using a revised discount rate. The revised discount rate used is the interest rate implicit in the lease for the remainder of the lease term, or if that rate cannot be readily determined, the lessee Company's incremental borrowing rate at the date of the modification.

Where the lease modification decreases the scope of the lease, the carrying amount of the right-of-use asset is reduced to reflect the partial or full termination of the lease. Any difference between the adjustment to the lease liability and the adjustment to the right-of-use asset is recognised in profit or loss.

For all other lease modifications, the adjustment to the lease liability is recognised as an adjustment to the right-of-use asset.

Leases – as lessor

Lease income from operating leases is recognised in line with the Group's revenue recognition accounting policy (see page 18).

Leases under IAS 17

The following accounting policies were applied to leases in the year ended 31 December 2018:

Leases were classified as finance leases when the terms of the lease transferred substantially all the risks and rewards of ownership to the Group. All other leases were classified as operating leases.

Assets held under finance leases were 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 was recognised as a finance lease obligation. Lease payments were apportioned between finance charges and the reduction of lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges were charged directly to profit or loss, unless they were directly attributable to qualifying assets, in which case they were capitalised in accordance with the Company's policy on borrowing costs.

Rentals payable under operating leases were expensed on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease (such as up-front cash payments and reimbursement of relocation costs or the cost of lease improvements) were also spread on a straight-line basis over the lease term.

GH EQUITY UK LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued) **for the year ended 31 December 2019**

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Where there is no reasonable certainty that ownership of the asset will be transferred to the Company at the end of the lease term, the asset shall be fully depreciated to residual value, over the shorter of the lease term and the useful life. If there is reasonable certainty that the asset will be transferred to the Company at the end of the lease term, the asset will be depreciated over its useful life to residual value, in accordance with IAS 16 Property, plant and equipment.

Investment property

Investment property, which is property held either to earn rental income or for capital appreciation or both, is stated at its fair value at the reporting date. The method of establishing fair value is stated in note 8. Gains or losses arising from changes in the fair value of investment property are included in the consolidated statement of comprehensive income for the period in which they arise.

Gains or losses arising from disposal of investment property, being the difference between the net disposal proceeds and carrying value, are included in profit or loss in the year of the disposal.

Investments in subsidiaries

Investments in subsidiaries are held at cost less accumulated impairment losses. The Group assesses investments for impairment whenever events or changes in circumstances indicate that the carrying value of an investment may not be recoverable. Impairment losses are recognised in the Statement of Comprehensive Income.

Finance costs

Finance costs represent interest expense incurred on financial liabilities held at amortised cost. These are determined using the effective interest rate method, which is a method of calculating the amortised cost of a financial asset or financial liability (or group of financial assets or liabilities) and of allocating the interest income or interest expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows to the instrument's initial carrying amount.

Financial instruments

Financial assets and liabilities are recognised on the statement of financial position when the Company has become party to the contractual provisions of the instrument.

Financial assets

Trade and other receivables

Trade receivables are initially measured at their transaction price. Group and other receivables are initially measured at fair value plus transaction costs. Receivables are held to collect the contractual cash flows which are solely payments of principal and interest. Therefore, these receivables are subsequently measured at amortised cost using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and other short-term investments held by the Group with maturities of less than three months. These are highly liquid investments that are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value.

GH EQUITY UK LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2019

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all its liabilities.

Trade and other payables

Trade and other payables and borrowings are initially recognised at fair value less transaction costs and subsequently measured at amortised cost using the effective interest rate method, with all movements being recognised in the statement of comprehensive income. Cost approximates to fair value.

Derivative financial instruments

The Group enters into derivative financial instruments to manage its exposure to interest rate risk, which include interest rate swaps. Further details of derivative financial instruments are disclosed in note 17. Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Equity

Equity instruments issued are recorded at fair value on initial recognition net of transaction costs.

Derecognition of financial assets and liabilities

A financial asset (or part thereof) is derecognised when the contractual rights to cash flows expire or are settled, or when the contractual rights to receive the cash flows of the financial asset and substantially all the risks and rewards of ownership are transferred to another party.

When there is no reasonable expectation of recovering a financial asset it is derecognised ('written off'). The gain or loss on derecognition of financial assets measured at amortised cost is recognised in profit or loss.

A financial liability (or part thereof) is derecognised when the obligation specified in the contract is discharged, cancelled or expires. Any difference between the carrying amount of a financial liability (or part thereof) that is derecognised and the consideration paid is recognised in profit or loss.

Impairment of financial assets

An impairment loss is recognised for the expected credit losses on financial assets when there is an increased probability that the counterparty will be unable to settle an instrument's contractual cash flows on the contractual due dates, a reduction in the amounts expected to be recovered, or both.

The probability of default and expected amounts recoverable are assessed using reasonable and supportable past and forward-looking information that is available without undue cost or effort. The expected credit loss is a probability-weighted amount determined from a range of outcomes and takes into account the time value of money.

GH EQUITY UK LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued) for the year ended 31 December 2019

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Trade receivables

For trade receivables, expected credit losses are measured by applying an expected loss rate to the gross carrying amount. The expected loss rate comprises the risk of a default occurring and the expected cash flows on default based on the aging of the receivable. The risk of a default occurring always takes into consideration all possible default events over the expected life of those receivables ("the lifetime expected credit losses"). Different provision rates and periods are used based on groupings of historic credit loss experience by product type, customer type and location.

Impairment of other receivables measured at amortised cost

The measurement of impairment losses depends on whether the financial asset is 'performing', 'underperforming' or 'non-performing' based on the company's assessment of increases in the credit risk of the financial asset since its initial recognition and any events that have occurred before the year-end which have a detrimental impact on cash flows. The financial asset moves from 'performing' to 'underperforming' when the increase in credit risk since initial recognition becomes significant.

In assessing whether credit risk has increased significantly, the company compares the risk of default at the year-end with the risk of a default when the investment was originally recognised using reasonable and supportable past and forward-looking information that is available without undue cost. The risk of a default occurring takes into consideration default events that are possible within 12 months of the year-end ("the 12-month expected credit losses") for 'performing' financial assets, and all possible default events over the expected life of those receivables ("the lifetime expected credit losses") for 'underperforming' financial assets.

Impairment losses and any subsequent reversals of impairment losses, are adjusted against the carrying amount of the receivable and are recognised in profit or loss.

Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

Segmental reporting

The Directors consider there to be only one operating segment, being the rental of the Group's long leasehold interest in the Grosvenor House Hotel, Park Lane, London, and accordingly no separate segmental analysis is disclosed.

GH EQUITY UK LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2019

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Taxation

The tax expense represents the sum of the current tax expense and deferred tax expense. Current tax assets are recognised when tax paid exceeds the tax payable.

Current tax is based on taxable profit for the year. Current tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted by the reporting date.

Current and deferred tax is charged or credited in the consolidated statement of comprehensive income, except when it relates to items charged or credited directly to other comprehensive income, in which case the current or deferred tax is also recognised in other comprehensive income.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount 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 statement of financial position liability method. Deferred tax liabilities are 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 in the future 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 which affects neither the taxable profit nor the accounting profit.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based upon tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and the deferred tax relates to income tax levied by the same tax authorities on either:

- the same taxable entity; or
- different taxable entities which intend to settle current tax assets and liabilities on a net basis or to realise and settle them simultaneously in each future period when the significant deferred tax assets and liabilities are expected to be realised or settled.

2. CRITICAL ACCOUNTING ESTIMATES AND AREAS OF JUDGEMENT

Estimates and judgements are continually evaluated and are based on historical experience, internal controls, advice from external experts and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting judgements will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

GH EQUITY UK LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued) for the year ended 31 December 2019

2. CRITICAL ACCOUNTING ESTIMATES AND AREAS OF JUDGEMENT (CONTINUED)

Investment property

The key accounting estimate in preparing these consolidated Financial Statements relates to the carrying value of the investment property which is stated at fair value. The valuation of the Group's investment property is inherently subjective as it is made on the basis of valuation assumptions which may in future not prove to be accurate. The property valuation included in these financial statements was performed by a third party professional valuer. Details of the valuation of the investment property are set out in note 8.

Deferred taxation

Deferred tax liabilities are assessed on the basis of assumptions regarding the future, the likelihood that assets will be realised, and liabilities will be settled and estimates as to the timing of those future events and as to the future tax rates that will be applicable.

Interest rate swap

The fair value of the interest rate swap is based on valuation techniques that are consistent with generally accepted valuation methodologies for pricing financial instruments and they incorporate all factors and assumptions that market participants would consider in setting the price. The fair value is determined on the basis of the current value of the difference between the contractual interest rate and the market rate at the reporting date. The inputs used in determining the fair value of the interest rate swap fall within Level 2 of the fair value hierarchy (note 17).

Leases

The Group uses judgement to assess whether the interest rate implicit in the lease is readily determinable. When the interest rate implicit in the lease is not readily determinable, the Group estimates the incremental borrowing rate based on its external borrowings secured against similar assets, adjusted for the term of the lease. On this basis, the Group has estimated its incremental borrowing rate to be 6.2%.

GH EQUITY UK LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2019

3. REVENUE	2019 £	2018 £
Rental income	29,316,652	28,742,800
Other property related income	660,549	707,555
	<u>29,977,201</u>	<u>29,450,355</u>

All rental income is generated from the investment property in the United Kingdom. Rental income consists of £29,266,652 and £50,000 (2018: £28,692,800 and £50,000) derived from two external tenants respectively.

4. PROFIT BEFORE TAX	2019 £	2018 £
The profit before tax is stated after charging:		
Depreciation – right-of-use assets	5,658	-
Rentals under operating leases	-	30,000
Amounts payable to the auditor:		
- for audit services to the company	3,750	3,750
- for audit services to the company's subsidiaries	46,250	46,250
- for tax compliance services	22,000	22,000
- for other non-audit services	86,863	197,500
Administrative expenses by nature:		
Property management, hotel management and insurance costs	860,607	806,392
Operating lease payments	-	30,000
Other expenses	224,333	591,171
	<u>1,084,940</u>	<u>1,427,563</u>
Impairment of related party receivable (note 11)	-	8,392,842

Included within administrative expenses are non-recurring costs in respect of non-audit services provided by related entities of the auditor totalling £20,260 (2018: £54,250).

GH EQUITY UK LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
for the year ended 31 December 2019

5. FINANCE COSTS	2019	2018
	£	£
Interest payable on bank loans	16,542,472	16,494,731
Interest payable on other loan	-	4,657,799
Interest payable on group loan	7,381,700	1,119,363
Refinancing transaction costs – amortisation	961,013	1,093,842
Refinancing transaction costs – exceptional	-	7,868,868
Interest on lease liabilities	29,819	-
Bank charges	1,893	1,467
	<u>24,916,897</u>	<u>31,236,070</u>

Exceptional costs occur in the normal course of business but are disclosed in order for the financial statements to give a true and fair view due to their size. Included within exceptional refinancing transaction costs in 2018 were previously capitalised un-amortised loan arrangement fees expensed and other loan arrangement fees incurred in relation to refinancing arrangements.

6. EMPLOYEES AND DIRECTORS

There were no employees during the year (2018: none) apart from the Directors of the Company and Group.

Directors remuneration comprised:

	2019	2018
	£	£
Remuneration for qualifying services	<u>12,833</u>	<u>-</u>

No directors are accruing benefits under defined contribution pension schemes (2018: none) and no directors received payments under long term incentive schemes (2018: none).

Some director's remuneration is borne by another group entity.

Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. In the opinion of the Directors there were no key management personnel other than the Directors in the year.

GH EQUITY UK LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2019

7. INCOME TAX

	2019 £	2018 £
Current taxation		
Current tax for the year	972,011	186,536
Adjustment in respect of prior periods	(186,536)	-
Total current tax	<u>785,475</u>	<u>186,536</u>
Deferred taxation (note 16)		
Origination and reversal of temporary differences	7,379,832	13,254,643
Adjustments in respect of previous periods	552,689	(1,438,438)
Effect of tax rate change on opening balances	(776,825)	(1,395,226)
Total deferred tax	<u>7,155,696</u>	<u>10,420,979</u>
Total income tax charge	<u>7,941,171</u>	<u>10,607,515</u>

The actual tax charge differs from the expected tax charge computed by applying the UK corporation tax rate of 19% as follows:

	2019 £	2018 £
Profit before taxation	<u>28,695,078</u>	<u>58,912,150</u>
Profit before taxation, multiplied by standard rate of UK corporation tax of 19% (2018: 19%)	<u>5,452,065</u>	<u>11,193,375</u>
Effects of:		
Non-deductible items	3,819,391	3,182,463
Income not taxable	(919,614)	(14,012,097)
Chargeable gains	-	12,806,000
Transfer pricing adjustments	-	270,825
Adjustments to tax charge in respect of previous periods	366,153	(1,438,438)
Effects of changes in rates and laws	(776,824)	(1,395,226)
Other tax adjustments	-	613
	<u>2,489,106</u>	<u>(585,860)</u>
Total income tax expense	<u>7,941,171</u>	<u>10,607,515</u>

The UK main corporation tax rate will reduce to 17% from 1 April 2020, announced in the Finance Bill 2016, which was substantively enacted on 12 September 2016. As the change has been substantively enacted at the reporting date, the deferred tax assets and liabilities reflect this rate.

The Group has estimated trading losses and management expenses of £61,728,798 (2018: £69,738,069) available to carry forward against future taxable profits.

GH EQUITY UK LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2019

8. INVESTMENT PROPERTY	2019 Group £	2018 Group £
Fair value:		
Opening balance for the year	717,400,000	650,000,000
Fair value adjustment	32,600,000	67,400,000
Closing balance for the year	<u>750,000,000</u>	<u>717,400,000</u>

The investment property comprises a long leasehold over the Grosvenor House Hotel, Park Lane, London, expiring in 2104.

A valuation of the investment property was undertaken by an independent professional valuer in January 2020 which valued the leasehold property at £750m on an open market basis and the property has been included in these financial statements by the Directors as this represents their best estimate of the investment property's fair value at 31 December 2019.

The valuation method represents a level 2 valuation, as defined in IFRS 13: Fair Value Measurement, including both direct and indirect observable inputs for the investment property.

The professional valuation was on an open market basis and was arrived at by reference to market evidence and discounted cash flows. The valuation projects income to increase by 2% per annum over the period of the lease agreement, including the reversionary lease up to 2052, discounted at a rate of 6%. The valuation is based on a capitalisation rate of 4.0%. The only fixed charges considered to arrive at the opinion of value are nonoperating expenses such as property taxes, and property insurance. Other valuation considerations applied in the valuation include consideration of recent survey reports, the London hotel market, local hotel competition and comparable transactions.

The property rental income earned by the Group from its investment property during the year under review amounted to £29,316,652 (2018: £28,742,800).

The lessee, Marriott International Inc., bears the contractual obligation to maintain the investment property. Neither the Group nor the lessee has a contractual obligation to purchase or develop the property.

GH EQUITY UK LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2019

9. PROPERTY, PLANT AND EQUIPMENT - GROUP

	Right-of-use asset - Buildings £
Cost:	
At 31 December 2018	-
Right-of-use assets on transition to IFRS 16	480,959
At 1 January 2019 and 31 December 2019	<u>480,959</u>
Accumulated depreciation:	
At 31 December 2018	-
Charge for the year	5,658
At 31 December 2019	<u>5,658</u>
Net book value:	
At 31 December 2019	475,301
At 31 December 2018	<u>-</u>

The net book value of the Group's property, plant and equipment relates entirely to right-of-use assets which consist of buildings with a net book value of £475,301. The lease term is for 85 years. No borrowing costs were capitalised (2018: £Nil).

GH EQUITY UK LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued) for the year ended 31 December 2019

10. INVESTMENTS

Company
£

Investments in subsidiaries:

At 1 January 2019 and 31 December 2019

100

The Company has investments in the following subsidiaries:

Name of subsidiary	Place of incorporation	Proportion of ownership & voting power %	Nature of business
GH Equity Limited <i>Registered office: IFC 5, St Helier, Jersey, JE1 1ST</i>	Jersey	100	Holding company
GH Mezz I Limited* <i>Registered office: IFC 5, St Helier, Jersey, JE1 1ST</i>	Jersey	100	Holding company
GH Mezz II Limited* <i>Registered office: IFC 5, St Helier, Jersey, JE1 1ST</i>	Jersey	100	Holding company
GHH Holdings Limited* <i>Registered office: Third Floor, One London Square, Cross Lanes, Guildford, Surrey, GU1 1UN</i>	UK	100	Property investment
Reeves Lease Limited* <i>Registered office: Third Floor, One London Square, Cross Lanes, Guildford, Surrey, GU1 1UN</i>	UK	100	Property investment

*Subsidiary undertakings owned indirectly.

Reeves Lease Limited is exempt from audit under Section 479(a) of Companies Act 2016.

GH EQUITY UK LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2019

11. TRADE AND OTHER RECEIVABLES

	2019 Group £	2019 Company £	2018 Group £	2018 Company £
Current				
Prepayments and accrued income	24,211	25,371,297	23,169	16,180,827
Non-current				
Group receivables	-	160,594,916	-	158,208,408

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value. All receivables are denominated in Sterling. At 31 December 2019 no receivables were past due or impaired.

Group receivables owed to the Company include loan notes issued to a subsidiary undertaking. Interest accrues on the loan notes at 7.25% of which 1.5% is rolled up and included within the loan note balance. The balance is unsecured and due for repayment in 2022. The balance on the loan notes at 31 December 2019 was £160,594,916 (2018: £158,208,408) which included rolled up interest of £2,386,508 (2018: £3,138,157). Unpaid interest of £25,371,297 (2018: £16,180,827) is included in the Company's prepayments and accrued income at 31 December 2019.

A receivables balance of £8,392,842 owed by a former related party of the Group was impaired in full in the prior year, prior to the acquisition of the group by the current owners.

12. TRADE AND OTHER PAYABLES

	2019 Group £	2019 Company £	2018 Group £	2018 Company £
Trade payables	24,536	-	49,110	-
Group payables	-	32,227,278	1,532,567	20,218,032
Accruals and deferred income	19,974,416	9,300,919	12,441,339	1,627,948
Other payables	1,322,205	-	1,219,998	-
	<u>21,321,157</u>	<u>41,528,197</u>	<u>15,243,014</u>	<u>21,845,980</u>

The group payables are owed to an entity owned by the ultimate controlling party and are unsecured, interest free and repayable on demand.

The Company's group payables are unsecured and repayable on demand. Interest accrues at 3.43% (2018: 3.43%)

The Directors consider that the carrying amount of trade and other payables approximates to their fair value. All payables are denominated in Sterling.

GH EQUITY UK LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2019

13. BORROWINGS – NON-CURRENT

	2019 Group £	2019 Company £	2018 Group £	2018 Company £
Bank loans	430,260,757	-	429,299,744	-
Loan from group	106,175,000	106,175,000	117,675,000	117,675,000
	<u>536,435,757</u>	<u>106,175,000</u>	<u>546,974,744</u>	<u>117,675,000</u>

The senior bank loan is £380m. The loan is secured with fixed and floating charges over the assets of the Group. The loan is repayable in full in December 2024, and interest is payable quarterly in arrears at a margin of 2.08% over 3 month LIBOR. The Group continues to be party to an interest rate swap which fixes the variable element of the interest on the entire senior loan amount of £380m at 1.373% (2018: 1.373%).

The bank loan was initially recognised at fair value, net of transaction costs. At 31 December 2019 the loan is stated net of amortised transaction costs of £3,496,621 (2018: £4,205,658).

During the prior year the Group arranged a £55m 'Mezzanine' bank loan facility agreement. The loan is secured with fixed and floating charges over the assets of the Group, is repayable in 2024 and interest is payable in arrears at 6.2%. The loan was initially recognised at fair value, net of transaction costs. At 31 December 2019 the loan is stated net of amortised transaction costs of £1,242,622 (2018: £1,494,598).

The group loan is unsecured, and due for repayment on 31 December 2022. Interest is charged at 6.2%.

Reconciliation of liabilities arising from financing activities:

Group	1 January 2019 £	Cash flows £	Non-cash changes £	31 December 2019 £
Bank loans	429,299,744	-	961,013	430,260,757
Loan from group	117,675,000	(11,500,000)	-	106,175,000
Lease liability	-	(181)	480,960	480,779
	<u>546,974,744</u>	<u>(11,500,181)</u>	<u>1,441,973</u>	<u>536,916,536</u>

GH EQUITY UK LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2019

14. LEASE LIABILITIES

The maturity of the gross contractual undiscounted cash flows due on the Group's lease liabilities is set out below based on the period between 31 December 2019 and the contractual maturity date.

Group

31 December 2019	Less than 1 year £	Between 1 and 5 years £	Later than 5 years £	Total £
Right-of-use asset - Buildings	30,000	120,000	2,370,000	2,520,000
Future finance charges on lease liabilities	(29,808)	(119,107)	(1,890,306)	(2,039,221)
Present value of lease liabilities	192	893	479,694	480,779
1 January 2019	Less than 1 year £	Between 1 and 5 years £	Later than 5 years £	Total £
Right-of-use asset - Buildings	30,000	120,000	2,400,000	2,550,000
Future finance charges on lease liabilities	(29,819)	(119,159)	(1,920,063)	(2,069,041)
Present value of lease liabilities	181	841	479,937	480,959
				Total £
Minimum lease payments under lease liabilities:				
Non-current				480,587
Current				192
				480,779

The rates of interest implicit in the Group's lease arrangements is not readily determinable and the incremental borrowing rate applied in calculating the lease liability is 6.2%. The fair value of the Group's lease obligations is approximately equal to their carrying amount.

GH EQUITY UK LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2019

14. LEASE LIABILITIES (CONTINUED)

Effect of leases on financial performance - Group	2019 £	2018 £
Depreciation charge for the year included in 'administrative expenses' for right-of-use assets:		
- Buildings	5,658	-
Interest expense for the year on lease liabilities recognised in 'finance costs'	29,819	-
Effect of leases on cash flows:		
Total cash outflow for leases in the year	30,000	-

Company

The Company has no lease liabilities.

15. DERIVATIVE FINANCIAL INSTRUMENTS

	2019 Group £	2018 Group £
Interest rate swap	9,299,535	1,419,249

The fair value of the interest rate swap at 31 December 2019 represents the conversion of £380m of variable rate borrowings to a fixed rate exposure of 1.373% ending in December 2024 (2018: £380m fixed at 1.373%).

The interest rate swap is not traded in an active market. As a result, the fair value is based on valuation techniques that are consistent with generally accepted valuation methodologies for pricing financial instruments and they incorporate all factors and assumptions that market participants would consider in setting the price. The fair value is determined on the basis of the current value of the difference between the contractual interest rate and the market rate at the reporting date.

GH EQUITY UK LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2019

16. DEFERRED TAX LIABILITIES

Provision for deferred taxation has been made as follows:

Group	Chargeable gains £	Accumulated tax losses £	Accelerated depreciation £	Total £
At 1 January 2019	22,120,225	(11,855,472)	8,323,604	18,588,357
Charge to statement of comprehensive income	5,542,000	1,422,382	191,314	7,155,696
At 31 December 2019	<u>27,662,225</u>	<u>(10,433,090)</u>	<u>8,514,918</u>	<u>25,744,053</u>

Company

There is no deferred tax arising.

17. FINANCIAL INSTRUMENTS

The totals for each category of financial instrument, measured in accordance with IFRS 9 as detailed in the accounting policies, are as follows:

Loans and receivables	2019 Group £	2019 Company £	2018 Group £	2018 Company £
Current assets				
Trade and other receivables	1,675	25,371,297	506	16,180,827
Cash and cash equivalents	11,128,393	-	11,609,437	-
Non-current assets				
Trade and other receivables	-	160,594,916	-	158,208,408
Total financial assets	<u>11,130,068</u>	<u>185,966,213</u>	<u>11,609,943</u>	<u>174,389,235</u>

Other liabilities held at amortised cost

	2019 Group £	2019 Company £	2018 Group £	2018 Company £
Current liabilities				
Trade and other payables	12,532,041	41,528,197	6,671,215	21,845,980
Lease liabilities	192	-	-	-
Non-current liabilities				
Loans and borrowings	536,435,757	106,175,000	546,974,744	117,675,000
Lease liabilities	480,587	-	-	-
Total financial liabilities	<u>549,448,577</u>	<u>147,703,197</u>	<u>553,645,959</u>	<u>139,520,980</u>

GH EQUITY UK LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2019

17. FINANCIAL INSTRUMENTS (Continued)

Financial instruments measured at fair value

	2019 Group £	2019 Company £	2018 Group £	2018 Company £
Interest rate swap	(9,299,535)	-	(1,419,249)	-

In relation to the nature of the financial instruments that are measured in the Statement of Financial Position at fair value, IFRS 7 requires them to be put into a fair value measurement hierarchy, based on the lowest level of input significant to the overall fair value, as follows:

Level 1 – quoted prices for similar instruments

Level 2 – directly observable market inputs other than Level 1 inputs

Level 3 – inputs not based on observable market data

The inputs used in determining the fair value of the interest rate swap fall within Level 2 of the fair value hierarchy.

The Directors consider the book value of all financial instruments to equate to their fair value.

The Directors monitor the Group's financial risk management policies and exposure and approve financial transactions. The Director's overall risk management strategy seeks to assist the Group in meeting its financial targets whilst minimising potential adverse effects on financial performance.

Specific financial risk exposures and management

The Group's activities expose it to a variety of financial risks, including interest rate risk, liquidity risk and credit risk. Details of these risks and the Group's policies for managing these risks are included below:

Interest rate risk

The Group's interest rate risk exposure arises from its external borrowings, some of which are charged at a variable rate of interest.

The Group manages interest rate risk by way of an interest swap arrangement which has effectively fixed the variable rate interest at 1.373% on the entire £380m loan as at 31 December 2019 (2018: 1.373%).

Credit risk

The objective of credit risk management is to enable the Group to achieve appropriate risk versus reward performance whilst maintaining credit risk exposure in line with the approved appetite for the risk that tenants will be unable to meet their obligations to the Group.

GH EQUITY UK LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2019

17. FINANCIAL INSTRUMENTS (Continued)

Credit risk (continued)

Tenant credit risk is mitigated as rental payments are due on the first day of each rental quarter, and the tenant's rental commitments are supported by a guarantee provided by its controlling party, Marriott International Inc. The property lease can be terminated if rent becomes more than 14 days overdue, or if the guarantor fails to provide the agreed rental guarantee.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. The Group only deposits cash with well-established financial institutions of high quality credit standing.

Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its financial obligations as they fall due. The Group seeks to minimise liquidity risk on refinancing by borrowing for as long as possible and at the lowest acceptable cost. Efficient cash management, strict credit control and the Group's low-cost base minimise liquidity risk and ensure that funds are available to meet commitments as they fall due.

An entity owned by the ultimate controlling party has confirmed that they will not recall the group loan and accrued interest unless sufficient resources are available.

The fair value of derivative financial liabilities held by the Group at 31 December 2019 was £9,299,535 (2018: £1,419,249).

The table below analyses the Group's non-derivative financial liabilities on a contractual gross undiscounted cash flow basis into their relevant maturity groupings based on the remaining period at the consolidated statement of financial position date to the contractual maturity date.

	Less than 1 year £	Between 1 and 2 years £	Between 2 and 5 years £	Over 5 years £
At 31 December 2019				
Group				
Trade and other payables	12,532,041	-	-	-
Bank loans	-	-	430,260,757	-
Loan from group	-	-	106,175,000	-
At 31 December 2019				
Company				
Trade and other payables	41,528,197	-	-	-

GH EQUITY UK LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2019

17. FINANCIAL INSTRUMENTS (Continued)

Liquidity risk (Continued)

	Less than 1 year £	Between 1 and 2 years £	Between 2 and 5 years £	Over 5 years £
At 31 December 2018				
Group				
Trade and other payables	6,671,215	-	-	-
Bank loans	-	-	-	429,299,744
Loan from group	-	-	117,675,000	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 2018				
Company				
Trade and other payables	21,845,980	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Capital management

The Company's capital is managed at group level. At a Group level, capital is monitored using a gearing ratio which is calculated as net debt (bank borrowings and loan notes less cash and cash equivalents) over capital (equity attributable to owners of the Company) plus net debt.

	2019 Group £	2019 Company £	2018 Group £	2018 Company £
Borrowings	536,435,757	106,175,000	546,974,744	117,675,000
Cash and cash equivalents	(11,128,393)	-	(11,609,437)	-
Net debt	<u>525,307,364</u>	<u>106,175,000</u>	<u>535,365,307</u>	<u>117,675,000</u>
Equity	143,748,441	38,263,116	147,563,362	34,868,355
Equity plus net debt	<u>669,055,805</u>	<u>144,438,116</u>	<u>682,928,669</u>	<u>152,543,355</u>
Gearing ratio	<u>78.5%</u>	<u>73.5%</u>	<u>78.4%</u>	<u>77.1%</u>

In view of the financing arrangements in place, and that capital is managed as part of the wider finance function, the Directors consider that the gearing ratio at 31 December 2019 was acceptable.

GH EQUITY UK LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2019

18. SHARE CAPITAL

	2019 £	2018 £
Issued and fully paid:		
39,610,979 Ordinary shares of £1 each	39,610,979	39,610,979

The ordinary shares, which carry no right to fixed income, carry the right to vote at general meetings of the Company.

19. OPERATING LEASE COMMITMENTS

Group as a lessee

The Group holds the long leasehold on its investment property, Grosvenor House Hotel, Park Lane, London, which expires in 2104, and on which the Group pays head rent of £30,000 per annum.

The future aggregate minimum lease payments under this operating lease at 31 December 2018 disclosed in accordance with IAS 17 were as follows:

	2018 £
Less than one year	30,000
Between one and five years	120,000
After five years	2,400,000
	<u>2,550,000</u>

No operating lease commitments are disclosed for 31 December 2019. The equivalent information is disclosed within note 14 in accordance with IFRS 16.

Group as a lessor

The Group has contracted with a tenant, under a non-cancellable operating lease arrangement for a term of 30 years, expiring on 30 January 2034, with a reversionary lease extension to 30 January 2052 under the same terms. Rental income earned in the period under this agreement amounted to £29,266,652 (2018: £28,692,800). Rent is subject to annual inflationary increases, subject to the achievement of certain performance criteria by the tenant.

The Group has contracted with another tenant, under a non-cancellable operating lease arrangement expiring in the year 2104. Rental income earned in the period under this agreement amounted to £50,000 (2018: £50,000). The rental income is fixed until 2026 when fixed rent uplifts are applied.

GH EQUITY UK LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued) for the year ended 31 December 2019

19. OPERATING LEASE COMMITMENTS (Continued)

There were no differences between the operating lease commitments disclosed at 31 December 2018 under IAS 17 discounted at the incremental borrowing rate at 1 January 2019 and lease liabilities recognised at 1 January 2019, as set out below:

	Operating lease commitments £	Incremental borrowing rate £	Discounted lease commitment £	Lease liability recognised £
Buildings	2,550,000	6.2%	480,959	480,959

20. CONTROL

The Company's immediate holding company is KH Holding BV, an entity registered in Netherlands, and the ultimate controlling party is the Qatar Investment Authority. The Company is the parent of the smallest group to consolidate these financial statements. The parent of the largest group to consolidate these financial statements is Katara Hospitality Limited, a company incorporated in Qatar.

21. RELATED PARTY TRANSACTIONS

The group is party to a loan facility from an entity owned by the ultimate controlling party. Interest of £7,381,700 (2018: £1,119,363) was charged on this facility during the year. The interest outstanding at 31 December 2019 was £8,501,063 (2018: 1,119,363) and is included in accruals and deferred income. The loan balance outstanding at 31 December 2019 was £106,175,000 (2018: £117,675,000) included in long term borrowings.

During the prior year the Group also received short term funding from the same wholly owned group entity. No interest was charged on this balance and the amount owed at 31 December 2018 was £1,532,567. This amount was repaid during 2019 and no balance remained at 31 December 2019.

22. INITIAL APPLICATION OF IFRS 16

On 1 January 2019, the Group adopted IFRS 16 'Leases' (IFRS 16) for the first time. IFRS 16 replaces IAS 17 'Leases'. The Group previously only had 'operating leases'. The main change on application of IFRS 16 is the accounting for 'operating leases' where rentals payable (as adjusted for lease incentives) were previously expensed under IAS 17 on a straight-line basis over the lease term.

Under IFRS 16 a right-of-use asset and a lease liability are recognised for all leases except 'low-value' and 'short term' leases where lease payments are recognised on a straight-line basis over the lease term.

The accounting for leases previously accounted for as finance leases under IAS 17 has not changed substantially, except that residual value guarantees are recognised under IFRS 16 at amounts expected to be payable rather than the maximum amount guaranteed, as required by IAS 17.

GH EQUITY UK LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2019

22. INITIAL APPLICATION OF IFRS 16 (CONTINUED)

The Group has taken advantage of the practical expedient to recognise the right-of-use asset on the date of initial application at an amount equal to the lease liability. At 1 January 2019 a right-of-use asset and corresponding lease liability of £480,959 has been recognised. The net impact on the income statement of additional depreciation and interest expense for the year ended 31 December 2019 in excess of the rental expense is £5,477.

The Group has applied the modified retrospective approach on adoption of IFRS 16. There was no impact on opening reserves at 1 January 2019. The comparative figures are as previously reported under IAS 17.

Impact of transition

The incremental borrowing rate applied to lease liabilities recognised by the group at 1 January 2019 was 6.2%.

At 31 December 2018 the Group's operating lease commitments totalled £2,550,000 and a lease liability of £480,959 was recognised at 1 January 2019. Further details of the differences are illustrated in note 19.

Impact on the statement of cashflows

Whilst the cash flows of the Group have not been affected by the adoption of IFRS 16, during the year ended 31 December 2019 cash outflows from financing activities presented with the Consolidated Statement of Cash Flows amounted to £181 representing cash repayments of the principal portion of leases recognised within lease liabilities under IFRS 16. A corresponding increase in cash inflows from operating activities was due to a reduction in cash outflows for cash payments for IAS 17 'operating leases' of £30,000, net of additional cash outflows £28,819 for cash payments of the interest portion of leases recognised within lease liabilities under IFRS 16. In summary, the adjustments to the Statement of Cash Flows were £(181), £30,000 and £(29,819), which had no impact on net cash flows for the year.

GH EQUITY UK LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued) **for the year ended 31 December 2019**

23. POST BALANCE SHEET EVENTS

The financial impact of COVID-19 on the group has principally been a reduction in 2020 rental income following the temporary closure of The Grosvenor House Hotel in March 2020, and forecasted rental reductions for 2021. At the time of approval of these financial statements the hotel remains temporarily closed as a result of the pandemic, scheduled to reopen for business in September 2020.

As a result of the reduced rental income the Group is, in 2020, in breach of certain financial covenants of its borrowing facilities. A waiver of the breach has been agreed until 29 December 2020 and financial support is to be provided to the Group by its shareholder group to allow the Group to meet its external liabilities as they fall due until rental income increases in the post-pandemic period.

The Directors are aware that, as a result of the rent reductions in 2020, there may have been a negative impact on the investment property valuation subsequent to the year-end date. Any such impact is expected to be short term, restricted to the COVID-19 pandemic period and its immediate aftermath, and the directors are confident that, post-pandemic, the property valuation will return to pre-pandemic levels.

The period over which rental income volatility will persist is difficult to predict as the situation is still evolving. The potential risks impacting the Group have been disclosed further in the Strategic Report and the accounting policies include the Directors' assessment of the going concern basis of preparation of these financial statements.