

Hawthorn Leisure Public Houses Limited

Report and Financial Statements

For the 52 weeks ended 28 March 2021

Registered No: 7401382



Hawthorn Leisure Public Houses Limited

Report and financial statements
for the period ended 28 March 2021

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Directors

Mark Davies
Allan Lockhart
Edith Monfries
Matthew Ward

Registered office

16 New Burlington Place
London
W1S 2HX

Company number

7401382

Independent Auditors

PricewaterhouseCoopers LLP
Chartered accountants and statutory auditor
1 Embankment Place
London
WC2N 6RH
United Kingdom

Hawthorn Leisure Public Houses Limited

Directors' report for the period ended 28 March 2021

The Directors present their report together with the audited financial statements for the 52 week period ended 28 March 2021. The prior year comparatives are the year ended 29 March 2020.

Strategic report – small companies exemption

In accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006, the Company is exempt from the requirements to prepare a strategic report.

Principal activities

The principal activities of Hawthorn Leisure Public Houses Limited (the 'Company') are the collection of rents from its estate of leased and tenanted premises.

The Company is part of the Hawthorn group, which comprises all subsidiaries of Hawthorn Leisure REIT Limited, which is the Company's parent.

Trading review and future developments

The Company's trading ability has been severely impacted by the Coronavirus pandemic. Following the UK-wide closure of pubs on 20 March 2020 the Company's estate of pubs remained closed until the easing of national lockdown restrictions on 4 July 2020. Since that date, government measures, putting in place local or regional restrictions and national lockdowns, resulted in further closures across the estate, with restrictions beginning to be ease from the 12 April 2021 onwards.

There has been a significant impact on rental income, with the Company providing support to its lessees and tenants through rent concessions. There has also been a significant decline in turnover related rent and managed pub income, due to the pub closures required under the coronavirus restrictions. The Directors have taken various measures to mitigate the impact of the pandemic with a focus on protecting liquidity through careful cost management, accessing support where available through UK Government, business rates holidays and other actions to manage cash flows.

Throughout the last year the number one priority has been the welfare of employees, operators and pub partners, which has been driven by implementing regular, clear and concise communications throughout what has been a challenging year.

Our Business Development Managers have been in regular contact with operators and pub partners with a particular focus on supporting them to access the financial support packages made available by the government (including furlough, business grants and business rates relief). Alongside this, we have been carrying out joint investments with our Pub Partners to improve the quality of the estate and increasing capacity in outside areas.

A strategic priority from the beginning of the pandemic has been to ensure that operators and pub partners feel well supported and are financially secure to emerge strongly from the pandemic and recover quickly once restrictions are lifted and the economy reopens. Our package of support means that we have high levels of occupancy in the estate, our operators and pub partners feel engaged and motivated and the business is well placed to bounce back strongly.

The Hawthorn estate of pubs are predominantly located in suburban, community and neighbourhood locations. Consequently, with consumers choosing to stay local to where they live, the community pub is well placed to benefit from an increase in local spending in the short to medium term. The Directors are confident that the estate will perform strongly as restrictions are lifted and with high levels of occupancy be extremely well placed to out-perform the market, as was demonstrated following pubs re-opening on the 4 July 2020.

The properties were revalued to £490k at 28 March 2021 (2020: £720k) by Colliers International UK Plc. The valuations undertaken by Colliers International UK Plc were in accordance with the Royal Institute of Chartered Surveyors ("RICS") Appraisal and Valuation manual based on current market conditions.

Hawthorn Leisure Public Houses Limited

Directors' report (continued) for the period ended 28 March 2021

Results and dividends

The Income statement is set out on page 9 and shows a loss of £110k (2020: loss of £14k) for the period. The Statement of Financial Position shows net assets of £675k (2020: £117k). The Directors expect the Company to trade profitably going forward.

On 26 March 2021, the NewRiver REIT plc group undertook a reorganisation of its intercompany loans. The Company's loan from NewRiver REIT plc was assigned to Hawthorn Leisure REIT Limited through a share issue. The loan from Hawthorn Leisure REIT Limited of £668k was then converted to equity through the issue of 668,481 ordinary shares to Hawthorn Leisure REIT Limited.

No dividend has been declared or paid in the period (2020: £nil). The Directors do not recommend payment of a final dividend (2020: £nil).

Directors

The Directors of the Company who were in office during the period and up to the date of signing the financial statements were:

Mark Davies
Allan Lockhart
Edith Monfries
Matthew Ward
Mark McGinty (resigned 11 May 2020)

No Director had any interest in the ordinary shares of the Company.

Mark Davies and Allan Lockhart are also Directors of the ultimate parent Company, NewRiver REIT plc, and their interests in the share capital of that Company are shown in its financial statements.

Directors Indemnity

As permitted by the Articles of Association, the directors have the benefit of an indemnity which is a qualifying third-party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force during the financial period and is currently in force at the date of approval of the financial statements. The company also purchased and maintained throughout the financial year, via NewRiver REIT plc, its ultimate parent company, Directors' and Officers' liability insurance in respect of itself and its directors.

Financial risks and objectives

Financial risk profile

The Company's financial instruments comprise loans, cash and various items such as debtors that arise directly from the Company's operations. The main purpose of these instruments is the investment of shareholders' funds.

Market risk

The Company is exposed to changes in property values within the market. Investment in property is subject to varying degrees of risk, which has been increased as a result of Covid-19. The main factors which affect the value of the investment in property include:

- i) changes in the general economic climate;
- ii) local conditions in respective markets, such as an oversupply, or a reduction in demand, for commercial space in a specific area;
- iii) competition from other available properties; and
- iv) government regulations, including planning, environmental and tax laws.

Market risk is managed by detailed financial analysis, assessment of underlying performance of the tenant, market research and analysis of pub performance.

Hawthorn Leisure Public Houses Limited

Directors' report (continued)
for the period ended 28 March 2021

Financial risks and objectives (continued)

Interest rate risk

Prior to the intercompany loans being settled (see note 9), there was an interest rate risk as the intercompany borrowings interest rate was based on a floating rate.

Liquidity risk

Liquidity risk is the risk that the Company cannot meet its liabilities as they fall due. The Company's investment property and property, plant and equipment is illiquid in nature, in that it may take some time to sell the assets.

As a result of Covid-19, the Government suspended the payment of business rates, which the Company benefitted from.

The Company has also received confirmation from its immediate parent company, Hawthorn Leisure REIT Limited that it will continue to provide financial support where necessary.

Credit risk

The Company is exposed to the credit risk of tenants defaulting on their rental payments, which has been impacted by Covid-19. The Company manages this risk by ensuring that credit reports are obtained for tenants prior to new leases being entered and on-going rental receipts are monitored on a regular basis. Cash balances are held at banks licensed by the appropriate regulatory authority and as a result, the Directors believe that the Company's credit risk exposure arising from its cash balances is minimised.

Currency risk

The Company is not exposed to significant currency risks.

Going concern

The Financial Statements have been prepared on a going concern basis. The Directors believe that this basis is appropriate even though the Company has incurred losses of £110k.

In considering the going concern position, the Company, along with Hawthorn Leisure REIT Limited, the Company's parent company, has undertaken a detailed analysis of projected income, expense and cash flow for a period of 18 months from the date of approval of the financial statements. These projections have been sensitised to model the impact of risks to the business, including a 50% reduction in trade in the last three months of 2021 and a full lockdown in the first three months of 2022 (similar to the same timeframe in 2020/2021), that might arise in a severe but plausible downside scenario.

Under both the base case scenario and severe but plausible downside scenarios the Company has sufficient liquidity and adequate financial resources to meet its obligations as they fall due. In addition, the Company has received confirmation from NewRiver REIT plc that it will provide financial support, where necessary, for a period of at least 18 months from the date of approval of the financial statements, subject to a change of ownership of the business as explained in note 14. Should the change of ownership occur, the Hawthorn group will arrange its own banking facilities to further support liquidity.

Taking the above into consideration, the Directors are satisfied that the Company has adequate resources to continue in operation for the foreseeable future, a period of at least 12 months from the date of this report. Accordingly, the Company continues to adopt the going concern basis in preparing these financial statements.

Hawthorn Leisure Public Houses Limited

Directors' report (continued) for the period ended 28 March 2021

Subsequent events

On 12 April 2021, as part of the Government's relaxation of the coronavirus pandemic restrictions, the Company was able to begin trading outdoors in England and successfully re-opened 60% of its portfolio. Pubs in Wales and Scotland also opened in April subject to specific regional variations. With the continued progression under the government's roadmap, pubs in England, Wales and Scotland were able to re-open indoors on 17 May with the exception of two regions of Scotland that were excluded. The final areas of Scotland opened for indoor trading on 5th June 2021. At this point over 95% of pubs were open and trading under restricted conditions.

Post the balance sheet date our insurers have confirmed that, in principle, our insurance policy should cover machine and wet rent losses, incurred during the pandemic, within our Leased and Tenanted estate for an indemnity period of three months. The details and quantum of this claim are still to be confirmed.

It was announced on 14th April, that NewRiver plc had undertaken a full strategic review of their portfolio and as part of this review the Board took the decision to dispose of the Hawthorn community pub business. NewRiver's Board is focused on how best to maximise value for its shareholders and to achieve Hawthorn's mission of being the Number 1 community pub company in the UK. In keeping with this strategy, the Board agreed a potential IPO of Hawthorn.

Directors' Responsibilities Statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law).

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Hawthorn Leisure Public Houses Limited

Directors' report (continued) for the period ended 28 March 2021

Independent Auditors

PricewaterhouseCoopers LLP have been appointed as auditors within the period. In accordance with section 485(3) of the Companies Act, PricewaterhouseCoopers LLP was re-appointed as the auditor to the Company.

Statement of disclosure to auditors

So far as each person who was a Director at the date of approving this report is aware, there is no relevant audit information of which the Company's Auditors are unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as Directors in order to make themselves aware of all relevant audit information and to establish that the Company's Auditors are aware of that information.

This directors' report has been prepared in accordance with the provisions applicable to companies entitled to the small companies exemption.

On behalf of the Board



Director
Matthew Ward

14 June 2021

Hawthorn Leisure Public Houses Limited
Independent auditors' report to the members of Hawthorn Leisure Public Houses Limited
for the period ended 28 March 2021

Report on the audit of the financial statements

Opinion

In our opinion, Hawthorn Leisure Public Houses Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 28 March 2021 and of its loss for the 52 week period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Report and Financial Statements (the "Annual Report"), which comprise: Statement of Financial Position as at 28 March 2021; Income Statement and Statement of Changes in Equity for the period then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Emphasis of matter - Significant estimation uncertainty in relation to the valuation of investment property

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in notes 2 (Judgements in applying accounting policies and key sources of estimation uncertainty), and 7 (investment property) to the financial statements. These notes explain that there is significant estimation uncertainty in relation to the valuation of investment properties of £490,000 included in the Statement of financial position as at 28 March 2021. The third party valuers engaged by management have included a material valuation uncertainty clause in their report. This clause highlights that less certainty, and consequently a higher degree of caution, should be attached to the valuation as a result of the COVID-19 pandemic.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Hawthorn Leisure Public Houses Limited
Independent auditors' report to the members of Hawthorn Leisure Public Houses Limited (continued)
for the period ended 28 March 2021

Report on the audit of the financial statements (continued)

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' report for the period ended 28 March 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Hawthorn Leisure Public Houses Limited
Independent auditors' report to the members of Hawthorn Leisure Public Houses Limited (continued)
for the period ended 28 March 2021

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to non-compliance with laws and regulations related to non-compliance with tax legislation, UK data protection laws such as the Data Protection Act 2018, UK legislation governing the license and sale of alcohol, and the Pub Code Regulations 2016, and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to fraudulent financial reporting, including but not limited to revenue overstatement through posting journal entries to increase revenue, and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Discussions with management, including considerations of any known or suspected fraud or instances of non-compliance with laws and regulations
- Evaluated assumptions made by management in determining significant financial estimates, and have challenged the assumptions used by management, and where relevant management's experts, specifically related to the valuation of investment property
- Identified and tested unusual journals entries, specifically those with unusual account combinations impacting Revenue and Administrative expenses, and journals posted by senior management personnel
- Reviewed board minutes and management's summary of all known and potential legal claims.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to: take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.

Rachael Moxon (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

.. June 2021

Hawthorn Leisure Public Houses Limited

Income Statement for the period ended 28 March 2021

	Note	2021 £'000	2020 (as restated*) £'000
Revenue	3	28	82
Cost of sales		-	-
Gross profit		28	82
Administrative expenses		(36)	(43)
Loss from changes in fair value of investment properties	7	(9)	(35)
Loss on disposal of investment properties	4	(80)	-
Operating (loss) / profit	4	(97)	4
Interest payable and similar expense	5	(13)	(18)
Loss before taxation		(110)	(14)
Tax on loss	6	-	-
Loss for the financial period/ year		(110)	(14)

All amounts relate to continuing activities.

There are no gains and losses other than those reported in the income statement and no other comprehensive income, hence no separate statement of comprehensive income has been presented.

* See note 15.

The notes on pages 12 to 23 form part of these financial statements.

Hawthorn Leisure Public Houses Limited

Statement of Financial Position at 28 March 2021

	Note	2021 £'000	2021 £'000	2020 £'000	2020 £'000
Fixed assets					
Investment property	7		490		720
Current assets					
Debtors	8	2		2	
Cash at bank and in hand		204		75	
		<u>206</u>		<u>77</u>	
Creditors: amounts falling due within one year	9	(21)		(680)	
Net current assets / (liabilities)			<u>185</u>		<u>(603)</u>
Net assets			<u>675</u>		<u>117</u>
Capital and reserves					
Called up share capital	10		668		-
Retained earnings			7		117
Total equity			<u>675</u>		<u>117</u>

The financial statements of the Company on pages 9 to 23, registration number 7401382, were approved by the Board of Directors on behalf of the Directors and authorised for issue on 14 June 2021 and signed for on its behalf by Matthew Ward.



Director
Matthew Ward

The notes on pages 12 to 23 form part of these financial statements.

Hawthorn Leisure Public Houses Limited

Statement of Changes in Equity for the period ended 28 March 2021

	Called up share capital £'000	Retained earnings £'000	Total £'000
As at 31 March 2019	-	131	131
Loss and total comprehensive expense for the period	-	(14)	(14)
	<hr/>	<hr/>	<hr/>
As at 29 March 2020	-	117	117
	<hr/>	<hr/>	<hr/>
Loss and total comprehensive expense for the period	-	(110)	(110)
Share issue (see note 10)	668	-	668
	<hr/>	<hr/>	<hr/>
As at 28 March 2021	668	7	675
	<hr/>	<hr/>	<hr/>

The notes on pages 12 to 23 form part of these financial statements.

Hawthorn Leisure Public Houses Limited

Notes forming part of the financial statements for the period ended 28 March 2021

1 Accounting policies

Hawthorn Leisure Public Houses Limited is incorporated in the United Kingdom and registered in England and Wales. The registered office is 16 New Burlington Place, London, W1S 2HX.

The principal activities of the Company are the collection of rents from its estate of leased and tenanted premises as well as sale of alcoholic beverages to its estate of leased and tenanted premises.

The following principal accounting policies have been consistently applied:

Basis of preparation

The financial statements have been prepared under the historical convention modified to include certain items at fair value in accordance with FRS 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland. The accounting policies have been applied consistently, other than where new accounting policies have been adopted.

The financial statements have been prepared in accordance with the Companies Act 2006.

The preparation of financial statements in conformity with FRS102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

The individual financial statements of Hawthorn Leisure Public Houses Limited have also adopted the following disclosure exemptions:

- Section 4.12 of FRS 102 the requirement to show a reconciliation of the number of shares outstanding at the beginning and at the end of the period.
- Section 11.39 to 11.48A, 12.29 of FRS 102 the requirement to present disclosures relating to financial instruments; and
- Section 33.7 of FRS102 the requirement to disclose key management personnel compensation in total.
- Section 7 of FRS102 the requirement to prepare a cashflow statements.

Functional currency

The functional currency of the Company is considered to be Pounds Sterling because that is the currency of the primary economic environment in which the Company operates.

Going concern

The Financial Statements have been prepared on a going concern basis. The Directors believe that this basis is appropriate even though the Company has incurred losses of £110k.

In considering the going concern position, the Company, along with Hawthorn Leisure REIT Limited, the Company's parent company, has undertaken a detailed analysis of projected income, expense and cash flow for a period of 18 months from the date of approval of the financial statements. These projections have been sensitised to model the impact of risks to the business, including a 50% reduction in trade in the last three months of 2021 and a full lockdown in the first three months of 2022 (similar to the same timeframe in 2020/2021), that might arise in a severe but plausible downside scenario.

Hawthorn Leisure Public Houses Limited

Notes forming part of the financial statements for the period ended 28 March 2021 (*continued*)

1 Accounting policies (*continued*)

Going concern (*continued*)

Under both the base case scenario and severe but plausible downside scenarios the Company has sufficient liquidity and adequate financial resources to meet its obligations as they fall due. In addition, the Company has received confirmation from NewRiver REIT plc that it will provide financial support, where necessary, for a period of at least 18 months from the date of approval of the financial statements, subject to a change of ownership of the business as explained in note 14. Should the change of ownership occur, the Hawthorn group will arrange its own banking facilities to further support liquidity.

Taking the above into consideration, the Directors are satisfied that the Company has adequate resources to continue in operation for the foreseeable future, a period of at least 12 months from the date of this report. Accordingly, the Company continues to adopt the going concern basis in preparing these financial statements.

Revenue

Other income – leased pubs

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The company recognises revenue when it transfers control of a product or service to a customer.

Rental income – leased pubs

Rental income from fixed and minimum guaranteed rent reviews is recognised on a straight-line basis over the entire lease term. Where such rental income is recognised ahead of the related cash flow, an adjustment is made to ensure the carrying value of the related property including the accrued rent does not exceed the external valuation. Initial direct costs incurred in negotiating and arranging a new lease are amortised on a straight-line basis over the period from the date of lease commencement to the expiry date of the lease.

Turnover related rent – leased pubs

Turnover related rent relates to the margin earned on the sale of wet products to its estate of leased and tenanted pubs and is recognised at the fair value of the consideration received or receivable for goods and services provided in the normal course of business.

Tenant Support – leased pubs

During the period changes to rental income lease payments arising from rent concessions in the form of tenant support via rent payment credits and waivers have been recognised in full as an offset to revenue to the extent that the rent concessions offered compensates periods during the financial year and have met the following requirements;

- change in rental income payments results in consideration that is lower than the rental income payments in the period immediately preceding the change
- the reduction relates to periods during the year and not future periods
- there is no other significant changes to the terms and conditions of the pre-existing lease agreement

Profit/ loss on disposal of investment properties

Sales of investment properties are recognised when there is a legally binding, unconditional and irrevocable contract.

Hawthorn Leisure Public Houses Limited

Notes forming part of the financial statements for the period ended 28 March 2021 (*continued*)

1 Accounting policies (*continued*)

Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is initially measured at cost and subsequently measured at valuation, net of any impairment gains or losses.

Gains or losses arising from changes in the fair value of investment property are included in the income statement in the period in which they arise.

When the Company begins to redevelop an investment property for continued future use as an investment property, the property remains an investment property.

Investment property is derecognised when the risk and rewards of the property is transferred to the purchaser. Gains or losses on the sale of properties are calculated by reference to the carrying value at the end of the previous year, adjusted for subsequent capital expenditure.

Capital expenditure, being costs directly attributable to the redevelopment or refurbishment of an investment property, up to the point of it being completed for its intended use, are capitalised in the carrying value of that property.

Impairment of tangible and intangible assets

At each reporting end date, the company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

Tax

The Company is part of the NewRiver REIT plc Group REIT regime which exempts qualifying UK property rental income and gains on investment property disposals from corporation tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

Hawthorn Leisure Public Houses Limited

Notes forming part of the financial statements for the period ended 28 March 2021 (continued)

1 Accounting policies (continued)

Deferred tax

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

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when the company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

Debtors

Debtors are initially recognised at fair value, and subsequently where necessary re-measured at amortised cost using the effective interest method. A provision for impairment of trade receivables is established when there is objective evidence the Company will not be able to collect all amounts due according to the original terms of the receivables.

Cash and cash equivalents

Cash is represented by cash at bank and in hand. The Company holds no cash equivalents.

Creditors

Creditors are initially recognised at fair value, and subsequently where necessary re-measured at amortised cost using the effective interest method.

Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

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 Company after deducting all of its liabilities.

The Company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Hawthorn Leisure Public Houses Limited

Notes forming part of the financial statements for the period ended 28 March 2021 (continued)

1 Accounting policies (continued)

Financial instruments (continued)

Financial assets and liabilities (continued)

Financial assets and liabilities are only offset in the statement of financial position when, and only when there exists a legally enforceable right to set off the recognised amounts and the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Debt instruments that have no stated interest rate (and do not constitute financing transaction) and are classified as payable or receivable within one year are initially measured at an undiscounted amount of the cash or other consideration expected to be paid or received, net of accumulated impairment loss.

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Company transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Company, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

Equity instruments

Equity instruments issued by the Company are recorded at the fair value of cash or other resources received or receivable, net of direct issue costs.

Fair value measurement

The best evidence of fair value is a quoted price for an identical asset in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the market is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is estimated by using a valuation technique.

Financial liabilities and equity

Financial liabilities and equity are classified according to the legal substance of the financial instruments contractual obligations, rather than the financial instrument's legal form.

Finance costs

Finance costs are charged to profit or loss over the term of the debt using the effective interest rate method so that the amount charged is at a constant rate on the carrying amount. Finance costs include issue costs, which are initially recognised as a reduction in the proceeds of the associated capital instrument.

Related parties

The company discloses transactions with related parties which are not wholly owned with the same group. It does not disclose transactions with its parent or with members of the same group that are wholly owned.

Hawthorn Leisure Public Houses Limited

Notes forming part of the financial statements
for the period ended 28 March 2021 (continued)

2 Judgements in applying accounting policies and key sources of estimation uncertainty

The preparation of financial statements in compliance with FRS 102 requires the use of certain judgements that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Estimates are continually evaluated and are based on historical experience as adjusted or current market conditions and other factors. The Directors make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition seldom equal the related actual results.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period that may 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.

Fair value measurement and valuation processes

The Company's properties are stated at fair value. The valuation is determined using EBITDA multiples and maintainable earnings. The valuer values the assets on a Profits Method, assessing their opinion of the Fair Maintainable Trade (FMT) that a Reasonable Efficient Operator (REO) could achieve as at the valuation date having regard to actual trading performance of each asset and wider market dynamics. Properties are valued on the highest and best use basis. The valuer makes judgements on whether to use residual value or a higher value to include development potential where appropriate. Where no conversion opportunity has been identified at present, the valuer has not specifically considered an alternative use valuation.

Small changes in the key estimates can have a significant impact on the valuation of the properties, and therefore a significant impact on the balance sheet. Certain estimates require an assessment of factors not within management's control, such as overall market conditions. The third party valuers for properties recognised at 28 March 2021 include a material valuation uncertainty clause in their reports. The clause highlights significant estimation uncertainty regarding the valuation of investment property due to the Covid-19 pandemic. As a result of the impact of Covid-19 the valuations have made allowances for a delinquency period. Valuation reports are based on both information provided by the Group, which is derived from the Group's financial and property management systems and is subject to the Group's overall control environment, and assumptions applied by the valuers. These assumptions are based on market observation and the valuers' professional judgement.

EBITDA multiples and maintainable earnings have a direct relationship to valuation. There are interrelationships between these unobservable inputs as they are determined by market conditions. The existence of an increase in more than one unobservable input could be to magnify the impact on the valuation. Sensitivity analysis has been performed: a 1.0 x change in the fair maintainable trade ("FMT") multiple would change the valuation by £70k; and a 10 % change in FMT would change the valuation by £49k. An increase in FMT or the multiple increase the valuation and a decrease in FMT or the multiple decrease the valuation.

The estimated fair value may differ from the price at which the Company's assets could be sold. Actual realisation of net assets could differ from the valuation used in these financial statements, and the difference could be significant.

Impairment of trade receivables

As a result of Covid-19 the Company's assessment of trade receivables impairment is inherently subjective due to the forward-looking nature of the assumptions made, most notably around the assessment over the likelihood of tenants having the ability to pay rent as demanded, as well as the likelihood of rent deferrals and rent frees being offered to tenants as a result of the pandemic. The provision which has been recognised is therefore subject to a degree of uncertainty which may not prove to be accurate given the uncertainty caused by Covid-19.

Hawthorn Leisure Public Houses Limited

Notes forming part of the financial statements
for the period ended 28 March 2021 (continued)

2 Judgements in applying accounting policies and key sources of estimation uncertainty (continued)

Significant judgements

Leased and tied pub classification as investment property

The Directors have exercised judgement in order to determine the appropriate classification of the leased and tied pubs as Investment Property or Property, Plant and Equipment. Under FRS 102 an entity treats such a property as investment property if services provided to the occupier are insignificant to the arrangement as a whole.

The Directors consider that whilst the relative proportion of wet income to lease income from a tied pub in quantitative terms is not insignificant other factors should be considered in making the assessment of whether the services provided to the tenants are insignificant. The income received by the Company in respect of the sale of wet products is higher than that which would be received by a third party providing the same services and that these pubs pay a lower fixed rent than they would without the wet product tie. This indicates the margin earned, in substance, predominantly represents turnover related rent. Accordingly, leased and tied pubs with an aggregate fair value of £490k at 28 March 2021 (29 March 2020: £720k) have been classified as Investment Property.

Revenue recognition - principal vs agent

The Company has contracts with breweries and drinks distributors for the provision of wet product to its pub tenants. In assessing whether it is appropriate to recognise revenue as principal or agent, the Directors exercise their judgement in considering the appropriate criteria. The Company is not responsible for the delivery or the quality of the wet drink product and does not take physical control or assume inventory risk in the arrangement; these factors indicate that the Company is acting as agent and the Directors have concluded that this outweighs the fact that the Company sets the pricing with the tenant and bears an element of credit risk. In considering the nature of the relationship with its pub tenants, the Directors are satisfied that the Company is not acting as principal and has therefore recognised revenue representing only the net margin earned on wet product sales.

3 Revenue

Revenue is wholly attributable to the principal activity of the Company and arises solely within the United Kingdom.

	2021 £'000	2020 £'000
Rental income	8	20
Turnover related rent	15	62
Other income	5	-
	<hr/>	<hr/>
	28	82
	<hr/>	<hr/>

Tenant rent support costs of £7k is offset against rental income above. This has been provided to support the tenants through the course of the coronavirus restrictions.

Hawthorn Leisure Public Houses Limited

Notes forming part of the financial statements
for the period ended 28 March 2021 (continued)

4 Operating (loss) / profit

The Company had no employees (2020: none) during the period and no remuneration was paid (2020: £nil) to Directors.

All directors are employed by Hawthorn Leisure Management Limited or NewRiver REIT plc, fellow group companies. It is not possible to allocate their remuneration between the services provided to each individual company. The emoluments paid to directors employed by Hawthorn Leisure Management Limited are disclosed in the accounts of that company. The emoluments paid to A Lockhart, M Davies and E Monfries who are also directors of NewRiver REIT plc are disclosed in the accounts of that company.

Auditors' remuneration of £12k (2020: £12k) was borne by Hawthorn Leisure Management Limited and a recharge was performed to the Company.

Operating (loss) / profit is stated after charging £80k for the loss on disposal of investment property (2020: £nil).

5 Interest payable and similar expenses

	2021 £'000	2020 £'000
Intercompany interest	13	18

6 Tax on loss

The tax charge for the period can be reconciled to the loss in the Income Statement as follows:

	2021 £'000	2020 £'000
Loss before taxation	(110)	(14)
Corporation tax at 19% (2020: 19%)	(21)	(3)
Expenses not deductible for tax purposes	-	7
Group relief surrendered / (claimed)	3	(2)
Exempt profit adjustment	18	(2)
Tax charge	-	-

Although the Company is part of the NewRiver REIT plc Group REIT regime which exempts qualifying UK property rental income and gains on investment property disposals from corporation tax, there is an element of rental income which relates to the pub business and therefore does not qualify for an exemption under the REIT regime.

Hawthorn Leisure Public Houses Limited

Notes forming part of the financial statements
for the period ended 28 March 2021 (continued)

7 Investment property

	2021 £'000	2020 £'000
Fair value		
At 30 March 2020 / 1 April 2019	720	755
Acquisition costs	4	-
Disposals	(225)	-
Valuation losses in profit and loss	(9)	(35)
	<hr/>	<hr/>
At 28 March 2021 / 29 March 2020	490	720
	<hr/>	<hr/>

The property has been revalued as at 28 March 2021 by Colliers International UK Plc in accordance with the Royal Institute of Chartered Surveyors ("RICS") Appraisal and Valuation manual. The historical cost of this investment property including capitalised costs is £340k (2020: £695k).

During the period, the Company sold a total of 1 pub for a total loss on disposal of £80k.

The outbreak of Covid-19, declared by the World Health Organisation as a "Global Pandemic" on 11 March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries. Market activity is being impacted in many sectors. As at the valuation date, the external valuers consider that they can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. The current response to Covid-19 means that external valuers are faced with an unprecedented set of circumstances on which to base a judgment. The valuations across all asset classes are therefore reported on the basis of "material valuation uncertainty" as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to the valuations provided than would normally be the case. The external valuers have confirmed, the inclusion of the "material valuation uncertainty" declaration does not mean that valuations cannot be relied upon. Rather, the phrase is used in order to be clear and transparent with all parties, in a professional manner that – in the current extraordinary circumstances – less certainty can be attached to valuations than would otherwise be the case. In light of this material valuation we have reviewed the ranges used in assessing the impact of changes in unobservable inputs on the fair value of the Company's property portfolio, see below.

Sensitivities of measurement of significant inputs

As set out within significant accounting estimates and judgments above, the Company's property portfolio valuation is open to judgments and is inherently subjective by nature. As a result, the sensitivity analysis below illustrates the impact of changes in key unobservable inputs on the fair value of the Company's properties.

Sensitivity impact on valuations of a 10% change in fair maintainable trade ('FMT') and a 1.0x change in multiplier of:

Increase / (decrease) in valuation due to:	a 10 % change in FMT	a 1.0x change in FMT multiple
	£'000	£'000
Increase in FMT or multiple	49	70
Decrease in FMT or multiple	(49)	(70)

Hawthorn Leisure Public Houses Limited

Notes forming part of the financial statements
for the period ended 28 March 2021 (continued)

8 Debtors

	2021 £'000	2020 £'000
Amounts falling due within one year		
Trade debtors	1	1
Prepayments and accrued income	1	1
	<u>2</u>	<u>2</u>

Trade debtors are stated after provision for impairment of £9k (2020: £1k).

9 Creditors: amounts falling due within one year

	2021 £'000	2020 £'000
Trade and other creditors	5	6
Amounts owed to group undertakings	9	665
Value Added Taxation	-	4
Accruals and deferred income	7	5
	<u>21</u>	<u>680</u>

Amounts owed to fellow group undertakings are unsecured, non-interest bearing and repayable on demand. Prior to their settlement, this balance included intercompany loans, which were subject to the intercompany loan agreement with interest payable at LIBOR plus 2% and repayable on demand.

On 26 March 2021, the NewRiver REIT plc group undertook a reorganisation of its intercompany loans. The Company's loan from NewRiver REIT plc was assigned to Hawthorn Leisure REIT Limited through a share issue. The loan from Hawthorn Leisure REIT Limited of £668k was then converted to equity through the issue of 668,481 ordinary shares to Hawthorn Leisure REIT Limited. This has reduced the amounts owed to group undertakings.

10 Called up Share capital

	2021 £'000	2020 £'000
Allotted, called up and fully paid		
668,482 Ordinary share (2020: 1) of £1 each	668	-

On 26 March 2021 the Company issued 668,481 ordinary shares of £1 each to its parent company, Hawthorn Leisure REIT Limited in exchange for the settlement of the intercompany loan due to Hawthorn Leisure REIT Limited.

11 Capital commitments and contingent liabilities

The Company did not have any capital commitments or contingent liabilities as at 28 March 2021 (2020: none).

Hawthorn Leisure Public Houses Limited

Notes forming part of the financial statements
for the period ended 28 March 2021 (continued)

12 Financial commitments and operating lease arrangements

	2021 £'000	2020 £'000
Rentals receivable on operating leases of land and buildings		
Within 1 year	15	15
Between 2 and 5 years	19	24

The Company held no commitments under non-cancellable operating leases.

13 Ultimate parent Company and controlling party

Prior to 23 November 2020, the immediate parent company was NewRiver Retail Limited. On that date, the parent company made a dividend in specie to NewRiver REIT plc, representing the value of the entire share capital of the Company to transfer the ownership to NewRiver REIT plc. Subsequently, NewRiver REIT plc entered a share for share exchange with Hawthorn Leisure REIT Limited, with the latter company becoming the Company's immediate parent company from that date.

At 28 March 2021 the Company's ultimate parent Company and ultimate controlling party was NewRiver REIT plc, a Company incorporated in the UK.

The smallest and largest group in which the results of the Company are consolidated is NewRiver REIT plc, the Financial Statements of which are available on the Company's website www.nrr.co.uk.

The registered address of the ultimate parent is the same as the Company.

14 Subsequent events

On 12 April 2021, as part of the Government's relaxation of the coronavirus pandemic restrictions, the Company was able to begin trading outdoors in England and successfully re-opened 60% of its portfolio. Pubs in Wales and Scotland also opened in April subject to specific regional variations. With the continued progression under the government's roadmap, pubs in England, Wales and Scotland were able to re-open indoors on 17 May with the exception of two regions of Scotland that were excluded. The final areas of Scotland opened for indoor trading on 5th June 2021. At this point over 95% of pubs were open and trading under restricted conditions.

Post the balance sheet date our insurers have confirmed that, in principle, our insurance policy should cover machine and wet rent losses, incurred during the pandemic, within our Leased and Tenanted estate for an indemnity period of three months. The details and quantum of this claim are still to be confirmed.

It was announced on 14th April, that NewRiver plc had undertaken a full strategic review of their portfolio and as part of this review the Board took the decision to dispose of the Hawthorn community pub business. NewRiver's Board is focused on how best to maximise value for its shareholders and to achieve Hawthorn's mission of being the Number 1 community pub company in the UK. In keeping with this strategy, the Board agreed a potential IPO of Hawthorn.

Hawthorn Leisure Public Houses Limited

Notes forming part of the financial statements for the period ended 28 March 2021 (continued)

15 Prior period adjustment

Following a review of the presentation of property operating expenses and administrative expenses within the income statement, management concluded that £16k of costs presented in property operating expenses in the prior period financial statements, which primarily relate to costs associated with maintaining the property estate rather than costs associated with generating revenue, are more appropriately presented within administrative expenses. In addition, it is considered more appropriate to present (i) a cost of sales caption rather than a property operating expenses caption and (ii) a gross profit subtotal rather than a net property income subtotal, as this better reflects how management monitor the Company's performance, as well as aligning the presentation to that used in the financial statements of the other subsidiaries within the Hawthorn group.

The change in presentation of line items in the income statement (to present cost of sales and gross profit, rather than property operating expenses and net property income), is considered to be a change in accounting policy. This has been applied retrospectively under FRS 102 para 10.12.

The costs previously shown under 'property operating expenses' do not relate to costs associated with generating revenue (and therefore do not fall under the represented heading 'cost of sales'), this is therefore a prior period error. Due to the size of the costs to be re-presented, management have concluded that the financial statements of the Company for the financial period ended 29 March 2020 should be restated, as a correction of a prior period error under paragraphs 10.19 – 10.23 of FRS 102.

The restatement has no impact on operating profit or profit for the financial period ended 29 March 2020. In addition, there is no impact on the equity of the Company as at 29 March 2020.